



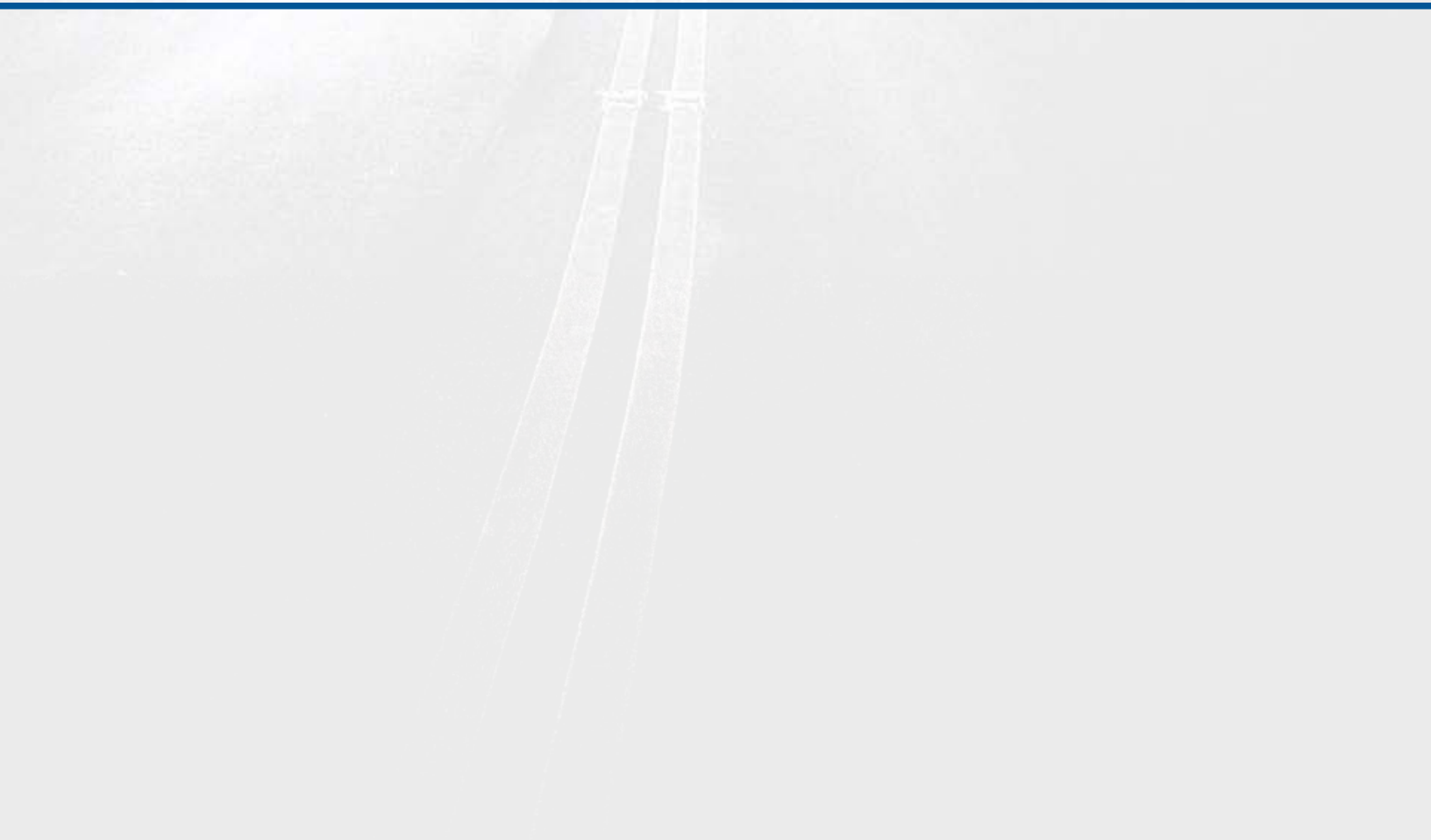
National
Credit
Union
Administration



ANNUAL REPORT

Resilience *and the*
Road Ahead

2010





National Credit Union Administration

Office of the Chairman

September 30, 2011

To the Members of the Senate Banking and House Financial Services Committees:

On behalf of the National Credit Union Administration (NCUA) and in the spirit of transparency, I am pleased to submit NCUA's 2010 Annual Report for your review.

This report reviews the agency's performance in 2010 and includes the audited financial statements for NCUA's four permanent funds. These funds include the National Credit Union Share Insurance Fund (NCUSIF), the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

NCUA works to foster the safety and soundness of federally insured credit unions. NCUA also works to better enable the credit union community to extend credit for productive and provident purposes to all Americans. Further, NCUA vigorously works to protect the NCUSIF from losses.

In its performance, NCUA strives to ensure that credit unions are empowered to make the necessary business decisions to serve the diverse needs of their existing members and potential members. NCUA achieves this objective by establishing a regulatory environment that encourages innovation, flexibility, and continued focus on attracting new members and improving service to existing members.

NCUA developed the agency's 2010 Annual Report in accordance with the requirements of:

- Section 102(d) of the Federal Credit Union Act;
- the Chief Financial Officers Act of 1990;
- the Government Performance and Results Act of 1993; and
- the provisions of Section 5 (as amended) of the Inspector General Act of 1978.

In accordance with the Reports Consolidation Act of 2000, NCUA also completed an assessment of the reliability of the performance data contained in this report. No material inadequacies were found, and the data are considered to be complete and reliable.

Sincerely,

A handwritten signature in black ink, reading 'Debbie Matz', is positioned below the word 'Sincerely,'.

Debbie Matz
Chairman



*NCUA's Mission Is to
Ensure a Safe and Sound
Credit Union System*

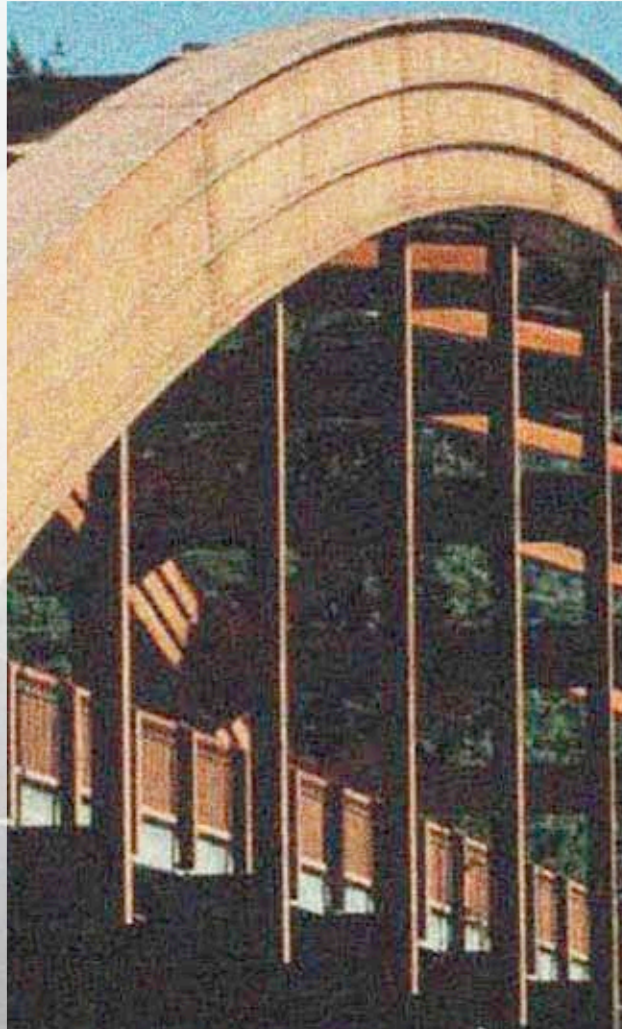


2010 ANNUAL REPORT

"Resilience and the Road Ahead"

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Resilience *and the* Road Ahead



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Message from the Board

Overview of 2010

After facing tough challenges in 2008 and 2009, the credit union industry demonstrated its resilience in 2010. This year the nation's 7,339 federally insured credit unions continued to respond to many economic hurdles, but moved significantly further along the road to improved financial stability.

By year's end, the industry had achieved higher net income, greater return on assets, more efficient operations, and declining loan delinquencies and charge-offs. The credit union system also continued to expand. Membership grew to 90.5 million, while total shares and deposits expanded in each quarter to \$786.5 billion. Assets increased to \$914.5 billion.

Much of the industry's stability results from the National Credit Union Administration's strong, balanced, fair and effective oversight. NCUA responded swiftly and decisively to recent problems affecting the credit union system, especially those related to corporate credit unions. NCUA also worked to adopt new rules and implement legislative reforms to enhance safety and soundness, while enforcing regulations responsibly. In 2010, NCUA further demonstrated its resolve to protect consumers, strengthen retail credit unions, and safeguard the capacity of the National Credit Union Share Insurance Fund (NCUSIF).

As a whole, however, the industry must overcome many obstacles, including declining loan demand and an aging membership base. In addition, smaller credit unions, which are often located in low-income neighborhoods and serve populations lacking access to other insured financial institutions, continue to face significant challenges. For this reason, NCUA in 2010 proposed rules and approved funding initiatives providing greater flexibility for small and low-income credit unions.

Executing a Durable Corporate System Resolution

The resolution of five corporate credit unions conserved by NCUA in 2009 and 2010 was, without question, the greatest challenge faced by NCUA during 2010. In September 2010, NCUA adopted the Corporate System Resolution, a comprehensive three-part strategy of stabilization, resolution and reform.

NCUA employed four guiding principles in developing this unprecedented plan:



Alexandria, Va. — NCUA Board Chairman Debbie Matz (center) poses with Board Member Christiane Gigi Hyland (left) and Board Member Michael E. Fryzel (right).

- Prevent interruption of payment services to credit unions and their members;
- Preserve confidence in the credit union system;
- Manage to the least long-term cost consistent with sound public policy; and
- Facilitate an orderly transition to a new regulatory regime and future state for the corporate credit union system.

To accomplish these goals, the NCUA Board (the Board) created “bridge corporate credit unions” to preserve essential services to retail credit unions and consumers while NCUA liquidated the five failed corporate credit unions.

At the same time, the Board approved a new corporate rule to provide rigorous standards for safety and soundness for ongoing corporate credit unions.

NCUA also successfully launched the NCUA Guaranteed Notes program in October 2010. This initiative will provide long-term funding for billions of dollars of legacy assets formerly held in the securities portfolios of the failed corporate credit unions.

Additionally, NCUA continued to oversee the effective implementation of the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) and successfully extended the life of the Temporary Corporate Credit Union Share Guarantee Program to ensure the continued stability of the credit union system.

Implementing Landmark Legislative Reforms

Many will remember 2010 as the year in which Congress established a new framework for regulating the financial services industry. Specifically, Congress enacted the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act. Among many other things, this law created the Financial Stability Oversight Council. As one

of 10 voting members, NCUA gained new responsibilities to look more broadly at the threats facing the global financial system.

NCUA also proposed stand-alone legislation, which

Congress approved in December. These reforms allow NCUA to provide capital assistance for emergency mergers, prevent artificially inflated NCUSIF premiums, and eliminate the collection of unnecessary interest on Stabilization Fund assessments.

This annual report is ultimately about transparency. It shows how NCUA assessed and improved its performance and reliability in 2010.

Protecting Consumers and Credit Union Members

NCUA has a responsibility to protect the member-owners of credit unions and ensure their financial security. As such, NCUA, through Congress, made permanent the \$250,000 insurance protection for deposits in September 2010 as required by the Dodd-Frank Act.

To enhance consumer awareness of the protection offered by federally insured credit unions, NCUA also initiated a

public awareness campaign in October 2010. Featuring Suze Orman—a financial advisor to millions—this multi-media initiative secured more than \$2.6 million in donated advertising time during its first three months.

In addition, NCUA moved forward with the establishment of an Office of Consumer Protection. The office has responsibilities for consumer compliance policy, program and rulemaking, fair lending examinations, complaint resolution and financial literacy programs. It also oversees chartering, charter conversions, field of membership expansions and low-income designations.

Ensuring Effective Regulation

A resilient credit union industry requires an effective regulatory system. The return to an annual examination cycle, rather than the 18-month cycle used in the years leading up to the financial crisis, is a key component of NCUA's efforts to ensure the continued safety and soundness of credit unions.

Over the past decade, supervising credit unions has increased in complexity as have the products and services offered by credit unions during a rapidly changing economy. At the same time, NCUA's staff

decreased. To meet those challenges and continue to perform its job effectively, NCUA needed to increase resources. During the last two years, NCUA hired and trained 241 new staff members.

NCUA's efforts to limit credit union failures and prevent losses before they impacted the NCUSIF and all federally insured credit unions have succeeded. Credit unions have fared far better than other financial institutions in recent years. In 2010, only 28 retail credit unions failed resulting in \$221 million in NCUSIF losses.

Maintaining Transparency

This annual report is ultimately about transparency. It shows how NCUA assessed and improved its performance and reliability in 2010. It also comprehensively details the clean audits delivered for NCUA's four permanent funds—the NCUSIF, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

After a financial crisis that tarnished the reputation of nearly every participant in the financial services sector, Americans' confidence in credit unions remains strong. NCUA plays a pivotal role in ensuring the safety and soundness of the not-for-profit credit union system.



Christiane Gigi Hyland
Board Member



Debbie Matz
Chairman



Michael E. Fryzel
Board Member



NCUA at a Glance

Resilience *and the*
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Insuring Deposits, Protecting Consumers, Regulating Credit Unions

The National Credit Union Administration has the unique role of acting as both deposit insurer of credit unions and as the regulator of credit unions, protecting the safety and soundness of the credit union system by identifying, monitoring and combating risks to the National Credit Union Share Insurance Fund.

NCUA promotes widespread financial education and consumer protection, as well. Through robust examinations, NCUA prevents the failure of credit unions and when it cannot, NCUA minimizes the impact of their failure on the entire industry. NCUA works to establish transparent regulatory actions that enhance and safeguard credit unions and the members who own them.

NCUA FULL-TIME EQUIVALENT
EMPLOYEES
1,131

3,782 CREDIT UNIONS OFFERING
ELECTRONIC BILL PAYMENTS

AVERAGE
SHARES
PER
MEMBER
\$8,687

21,066 CREDIT UNION BRANCHES

\$914.5
BILLION IN TOTAL ASSETS

7,339 FEDERALLY
INSURED
CREDIT
UNIONS

\$786.5 BILLION
TOTAL
SHARES

0.51% RETURN ON
AVERAGE ASSETS

721 CREDIT UNIONS WITH
MOBILE BANKING

10.1%

NET WORTH RATIO

3,571

CREDIT UNIONS
OFFERING E-STATEMENTS

Up to
\$250,000

DEPOSIT INSURANCE LIMIT

1.74% DELINQUENCY
RATIO

250,624 CREDIT UNION
EMPLOYEES

MILLION MEMBERS

90.5

4.5% SHARE
GROWTH

\$564.8 BILLION
IN
LOANS

MEMBER
INSURED
DEPOSIT
DOLLARS
LOST

NCUA Board of Directors

NCUA has a three-member board appointed by the President of the United States and confirmed by the U.S. Senate. No more than two Board members are from the same political party, and members serve staggered six-year terms. The NCUA Board normally meets monthly, except August, in open session in Alexandria, Va.

- **Chairman Debbie Matz** was nominated by President Barack Obama to serve as the eighth board chairman of NCUA. She was sworn into office Aug. 24, 2009. Starting in 2010, Ms. Matz also represents NCUA as one of ten voting members on the Financial Stability Oversight Council. Most recently a federal credit union's executive vice president/chief operating officer, Ms. Matz is no stranger to NCUA, having served as an NCUA Board Member from January 2002 to October 2005. President Bill Clinton previously appointed Ms. Matz to serve as Deputy Assistant Secretary of Administration at the Department of Agriculture. Her term expires April 10, 2015.
- **Board Member Christiane Gigi Hyland** was appointed by President George W. Bush to a seat on the NCUA Board effective Nov. 18, 2005. When nominated to the NCUA Board, she served as Senior Vice President, General Counsel for Empire Corporate Federal Credit Union in Albany, N.Y. She previously served concurrently as Vice President, Corporate Credit Union Relations of the Credit Union National Association, Inc. and Executive Director for the Association of Corporate Credit Unions. Her term expires Aug. 2, 2011.
- **Board Member Michael E. Fryzel** was appointed by President George W. Bush to a seat on the NCUA Board. He was confirmed by the U.S. Senate June 26, 2008, and took the oath of office as NCUA Chairman July 29, 2008, and served in this role for just over a year. Mr. Fryzel was an attorney in private practice specializing in financial, regulatory and real estate law prior to his appointment. Mr. Fryzel, a former director of the Illinois Department of Financial Institutions, served on the Illinois Governor's Board of Credit Union Advisors from 1992 until his NCUA appointment. His term expires Aug. 2, 2013.
- Senior Board staff include: Mary F. Rupp, Secretary of the Board; Steve Bosack, Chief of Staff to the Chairman; Gary J. Kohn, Senior Policy Advisor to Board Member Hyland; and Sarah Vega, Senior Policy Advisor to Board Member Fryzel.



NCUA Structure

NCUA's Board and executive director are located in its Alexandria, Va., headquarters along with the following major offices that administer the agency's various programs.

- The **Office of the Executive Director** (OED), led by David M. Marquis, is responsible for the agency's daily operations. The executive director reports directly to the NCUA Chairman. All regional and central office directors report to the executive director and NCUA's Equal Opportunity Program is included in this office. Also included is NCUA's strategic planning program, which directs the agency's planning process, and tracks and reports on goal achievement.
- The **Office of Examination and Insurance** (E&I), led by Melinda Love, provides national guidance for NCUA's supervision program ensuring the safety and soundness of federally insured credit unions. Within E&I, the Division of Supervision oversees NCUA's examination and supervision program. The Division of Risk Management oversees the agency's credit union problem resolution program and compiles the financial data submitted quarterly by all federally insured credit unions.
- The **Office of Public & Congressional Affairs** (PACA), led by John J. McKechnie III, handles federal legislation and serves as NCUA's liaison with Capitol Hill and fellow government agencies. PACA is also the source of information about NCUA and its functions for the public, credit unions, league and trade organizations, and the media.
- The **Office of General Counsel** (OGC), led by Robert M. Fenner, addresses legal matters affecting NCUA. These duties include representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA Rules and Regulations, processing Freedom of Information Act requests, advising the Board and the agency on general legal matters, and drafting regulations designed to ensure the safety and soundness of credit unions.



- The **Office of Capital Markets** (OCM), led by J. Owen Cole, Jr., develops agency policies and procedures related to credit union investments and asset liability management (ALM), and the office assists examiners to evaluate ALM and investment issues in credit unions. OCM also provides expert advice to the Board on ALM and investment issues and oversees the day-to-day operation of the Central Liquidity Facility.
- The **Office of the Chief Financial Officer** (OCFO), led by Mary Ann Woodson, is responsible for agency budget preparation and management, ongoing finance and accounting functions, facilities management and procurement, as well as the billing and collection of credit union assessments.
- The **Office of Corporate Credit Unions** (OCCU), led by Scott Hunt, supervises the corporate credit union system. Corporate credit unions provide a variety of investment services and payment systems for other credit unions. There are 26 corporate credit unions, including 4 bridges under NCUA conservatorship, that range from \$181 million to \$18.4 billion.
- The **Office of Small Credit Union Initiatives** (OSCUI), led by Tawana James, supports two primary roles, assisting the agency's risk mitigation program and fostering credit union development, particularly the expansion of services provided by small credit unions to all eligible consumers. OSCUI fulfills these roles through training sessions, customized assistance, financial assistance, chartering assistance and partnership opportunities.
- The **Office of the Chief Information Officer** (OCIO), led by Douglas Verner, is responsible for managing NCUA's automated information resources. This work includes collecting, validating and securely storing electronic agency information; developing, implementing and maintaining computer hardware, software and data communications infrastructure; and ensuring related security and integrity risks are recognized and controlled.



- The **Office of Human Resources (OHR)**, led by Lorraine Phillips, provides a full range of human resources functions to all NCUA employees. The office administers recruitment and merit promotion, position classification, compensation, employee records, training, employee benefits, performance appraisals, incentive awards, adverse actions and grievance programs.
- The **Office of Inspector General (OIG)** is led by William DeSarno. OIG promotes the economy, efficiency and effectiveness of NCUA programs and operations, and detects and deters fraud, waste and abuse, thereby supporting NCUA's mission of monitoring and promoting safe and sound federally insured credit unions. OIG conducts independent audits, investigations and other activities, and keeps the NCUA Board and U.S. Congress fully and currently informed of their work.



New Offices in 2010

- The **Office of Consumer Protection (OCP)**, led by Kent D. Buckham, was created in 2010 to demonstrate the increased importance NCUA is placing on consumer protection. OCP is responsible for consumer compliance policy, program and rulemaking, fair lending examinations, interagency coordination for consumer protection and compliance issues, member complaints, financial literacy programs, and ombudsman functions. It also handles chartering, charter conversions, bylaw amendments, field of membership expansions, and low-income designations.
- The **Office of the Chief Economist (OCE)**, led by John D. Worth, supports NCUA's safety and soundness goals through providing economic intelligence and enhancing NCUA's understanding of emerging microeconomic and macroeconomic risks, producing meaningful and robust modeling and risk identification tools, participating in agency and inter-agency policy development, and developing new initiatives.
- The **Office of Minority and Women Inclusion (OMWI)**, to be led by OSCUI's Tawana Y. James, was planned in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. OMWI will oversee Dodd-Frank Act requirements relating to diversity, civil rights and the promotion of minority and women hiring and contracting practices throughout the credit union industry.



NCUA Regional Entities

NCUA has five regional offices and its Asset Management and Assistance Center. The bulk of NCUA staff is its 526 examiners, assigned to five regions, who regularly examine federally insured credit unions to ensure safe and sound operations.

- The **Asset Management and Assistance Center (AMAC)**, led by its president Mike Barton, conducts credit union liquidations and performs management and asset recovery. The office assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. Staff also participate extensively in the operational phases of conservatorships and record reconstruction.
- NCUA's **Region I** is located in Albany, N.Y. Directed by Mark A. Treichel, the region covers Connecticut, Maine, Massachusetts, Michigan, Nevada, New Hampshire, New York, Rhode Island and Vermont.
- NCUA's **Region II** is located in Alexandria, Va. Directed by Jane A. Walters, the region covers California, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia.
- NCUA's **Region III** is located in Atlanta, Ga. Directed by Herbert S. Yolles, the region covers Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Puerto Rico, Ohio, South Carolina, Tennessee and the Virgin Islands.



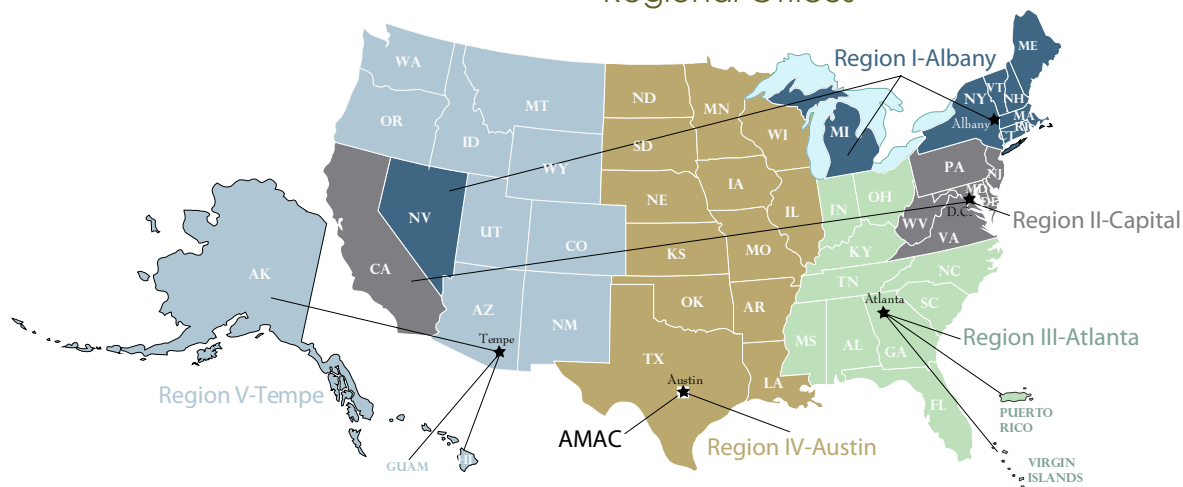
- NCUA's **Region IV** is located in Austin, Texas. Directed by C. Keith Morton, the region covers Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas and Wisconsin.



- NCUA's **Region V** is located in Tempe, Ariz. Directed by Elizabeth Whitehead, the region covers Alaska, Arizona, Colorado, Guam, Hawaii, Idaho, Montana, New Mexico, Oregon, Utah, Washington and Wyoming.



National Credit Union Administration Regional Offices



AMAC

4807 Spicewood Springs Road
Suite 5100
Austin, TX 78759-8490
Telephone: 512-231-7900
Fax: 512-231-7920
amacmail@ncua.gov

Region I—Albany

Nine Washington Square
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Albany, NY 12205
Telephone: 518-862-7400
Fax: 518-862-7420
region1@ncua.gov

Region II—Capital

1900 Duke Street, Suite 300
Alexandria, VA 22314
Telephone: 703-519-4600
Fax: 703-519-4620
region2@ncua.gov

Region III—Atlanta

7000 Central Parkway
Suite 1600
Atlanta, GA 30328
Telephone: 678-443-3000
Fax: 678-443-3020
region3@ncua.gov

Region IV—Austin

4807 Spicewood Springs Road
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Austin, TX 78759-8490
Telephone: 512-342-5600
Fax: 512-342-5620
region4@ncua.gov

Region V—Tempe

1230 West Washington Street
Suite 301
Tempe, AZ 85281
Telephone: 602-302-6000
Fax: 602-302-6024
region5@ncua.gov

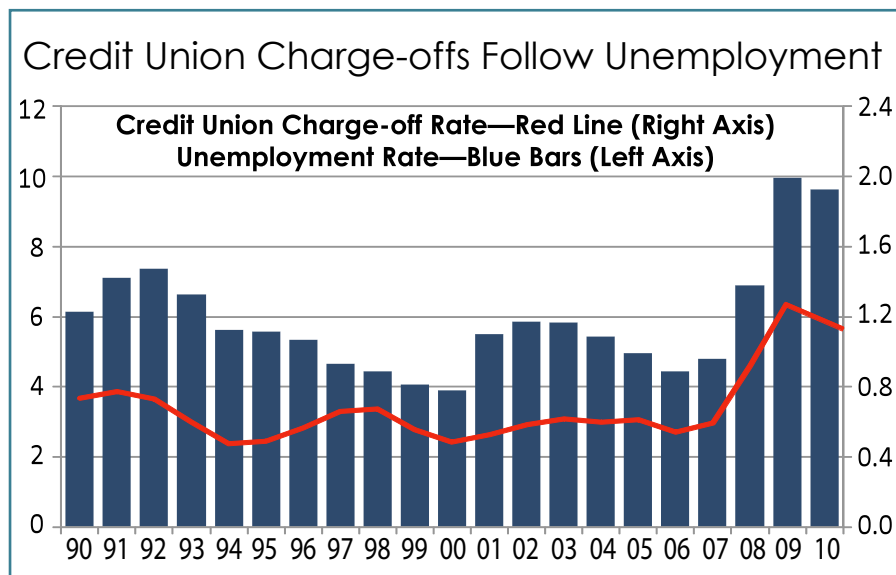
Resilience *and the* Road Ahead



Management's Discussion and Analysis

Assessing the Health of the Credit Union Industry

The U.S. economy and the credit union system improved in 2010. The economy expanded at a rate of 2.9 percent in 2010, after flat and negative growth in 2008 and 2009, respectively. The national unemployment rate fell from 9.9 percent in December 2009 to 9.4 percent in December 2010. Over the long term, credit union loan performance has been intrinsically linked to the economy, as illustrated in the graph to the right.



In 2010, net loan charge-offs to average loans dropped slightly from 1.21 percent to 1.13 percent. Similarly, the percentage of delinquent loans to total loans declined 10 basis points, from 1.84 percent to 1.74 percent. How-

As the economy began to recover, the overall financial condition of the credit union industry stabilized and improved, with federally insured credit unions (FICUs) reporting progressively stronger financial ratios in 2010 compared to the prior year. Improved earnings and controlled asset growth led to an increase in credit union system capital. Total net worth dollars increased 5.15 percent to \$92.07 billion, while the industry's aggregate net worth ratio rose from 9.89 percent of total assets to 10.06 percent, the first increase since 2006.

Industry Shows Resilience, Stabilizes and Improves

Credit union earnings, as measured by the return on assets (ROA) ratio, increased to 0.51 percent in 2010, a

significant improvement from 0.18 percent at year-end 2009 and negative 0.05 percent at year-end 2008. Lower operating expenses and cost of funds contributed to this rise. Another key driver of increased earnings was the reduction in provision for loan loss expense, reflecting an expectation of lower loan charge-offs going forward, as the economy continues to improve and credit quality stabilizes.

ever, the combined effects of weak housing values and high unemployment continue to adversely impact credit quality at many credit unions, prolonging the historically high levels of foreclosures and loan modifications.

Generating positive loan growth, while originating loans safely and soundly, will continue to be a challenge during the recovery from the longest and deepest recession of the post-war era. The increase in ROA occurred despite the decline in total loans, the leading income-producing asset on credit union balance sheets, of \$7.7 billion or negative 1.34 percent. At the same time, real estate loans grew \$45.4 million in 2010, comprising the largest portion of total loans at 54.8 percent. Vehicle loans are next, making up 29.1 percent of all loans. Long-term assets, especially fixed-rate real estate loans, increase credit unions'

exposure to interest rate risk. However, the credit union system also maintains substantial liquid assets, thereby mitigating liquidity risk. At year-end, FICUs reported more than \$914.5 billion in assets and \$786.5 billion in shares, exhibiting positive growth in both areas in 2010.

Credit unions continue to serve an increasing number of consumers, reporting total membership in excess of 90.5 million at year-end, an increase of 0.61 million members or 0.68 percent over 2009 figures. Additionally, the number of Americans eligible for credit union membership increased 6.6 percent, as many credit unions successfully expanded their fields of membership.

Draws on Central Liquidity Facility Decrease

The Central Liquidity Facility (CLF) serves as a backup lender to meet the unexpected liquidity needs of its member credit unions when funds are unavailable from standard credit sources. The CLF also has authority to lend funds to the NCUSIF under terms and conditions established by the NCUA Board. The two primary sources of funds for the CLF are paid-in stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

While credit unions relied heavily on the CLF in 2008-2009 for their liquidity needs, in 2010 such reliance decreased. At year-end 2010, there were no outstanding CLF loans.

In 2009, the NCUA Board had obtained concurrence from the Secretary of the Treasury and the Board of Governors of the Federal Reserve System to lend for other than liquidity needs under the Credit Union System

Investment Program and the Credit Union Homeowners Affordability Relief Program. All of the loans granted under the Investment Program matured in the first quarter of 2010, while the loans under the Homeowners Program matured at the end of 2010. Between both initiatives, the CLF provided \$8.3 billion in loans.

NCUA Share Insurance Fund Remains Healthy and Strong

The National Credit Union Share Insurance Fund (NCUSIF) remained strong during 2010. Members, mindful of the higher \$250,000 insurance coverage limits and desiring a safe place to invest their savings during times of economic uncertainty, spurred growth of 4.26 percent in insured shares last year. The NCUSIF ended 2010 with an equity ratio of 1.28 percent, up from 2009's 1.23 percent.

NCUSIF Adopts Federal Accounting Standards in 2010—The NCUA Board adopted Federal Accounting Standards Advisory Board (FASAB) standards for the NCUSIF, retroactive to Jan. 1, 2010. FASAB standards, the preferred method of reporting for federal entities, more appropriately meet the financial reporting requirements of the NCUSIF and its stakeholders.

Revenues and Costs—NCUSIF earned exchange revenues of \$979.2 million in 2010, which was primarily derived from the insurance premium of \$930.0 million, or 0.124 percent of insured shares. Additionally, the fund received \$216.9 million in non-exchange investment interest revenue. Gross costs of \$901.4 million included insurance loss expense of \$735.6 million. The fund concluded 2010 with net income from operations of \$77.8 million.

Insurance and Guarantee Program Liabilities—The total amount held in Insurance and Guarantee Program Liabilities (reserves) for natural person credit unions was \$1.23 billion as of Dec. 31, 2010. Of this amount, \$173.5 million was allocated for specific reserves related to credit unions where failure appeared imminent, and the remainder was set aside as general reserves.

Problem Credit Unions and Failures—The number of problem credit unions, defined as having a composite CAMEL rating of 4 or 5, was 359 at year-end, representing total shares of \$38.5 billion. These credit unions held approximately 5.1 percent of total insured shares at year-end 2010. Twenty-eight retail credit unions failed during 2010, at a cost of \$221 million. This is the same number of failures as the prior year. Failure is defined as causing a loss to the NCUSIF, either through involuntary liquidation or assisted merger.

Unqualified Opinion Earned—The NCUSIF received an unqualified, or “clean”, audit opinion on its financial statements for the year ended Dec. 31, 2010. This audit demonstrated NCUA’s commitment to effective stewardship and transparency.

Revamping the Corporate Credit Union System

The credit union system faced unprecedented challenges in 2010 due to significant investment losses on mortgage-related securities held by a number of corporate credit unions. The primary purpose of corporate credit unions is to provide consumer credit unions with correspondent banking, liquidity and investment services. Correspondent banking services help financial

institutions, including credit unions, to process and clear checks, process and settle electronic transactions, and move funds through the financial system. Due to the essential services that corporate credit unions provide consumer credit unions and their members, it was imperative that NCUA take bold action to address the problems in the corporate credit unions while also minimizing, as much as possible, the impact on consumer credit unions.

Stabilizing the Corporate System

In developing the Corporate Resolution Plan, NCUA undertook actions based on the following key principles:

- Prevent interruption of payment services to consumer credit unions and their 90 million members;
- Preserve confidence in the credit union system;
- Manage to the least long-term cost consistent with sound public policy; and
- Facilitate an orderly transition to a new regulatory framework for the corporate credit union system based on consumer credit union choice.

NCUA placed five corporate credit unions into conservatorship during 2009 and 2010. The five corporates represented 70 percent of the entire corporate system’s assets and more than 98 percent of the investment losses within the system. In taking direct control of these institutions, NCUA achieved the goals of (1) protecting the vital services of the thousands of consumer credit unions that rely on the corporate network, and (2) implementing the process to resolve the distressed assets. NCUA created “bridge” corporate credit unions to maintain ongoing member services and hold the “good” assets

of the conserved corporate credit unions. The distressed assets were placed into asset management estates so that NCUA could pursue resolution of these assets through a securitization process in order to minimize the long-term cost to consumer credit unions.

The resolution efforts have been successful. To date, the bridge corporates continue to provide the critical payment and settlement services on which their members depend. The future of the corporate system will ultimately be decided by the consumer credit unions they serve. If consumer credit unions are committed to a corporate system for their financial service needs, the system must conform to the new more rigorous regulatory framework adopted by the NCUA Board. If consumer credit unions choose not to obtain services from corporates going forward, NCUA will ensure an orderly transition to new service providers. No matter the final outcome, NCUA's primary goal will remain to ensure uninterrupted financial services to the 90.5 million credit union member-owners.

Changing the Rules for Corporate Credit Unions

In response to the major losses in the corporate credit union system in 2007 and 2008, NCUA began a deliberate, two-year rulemaking process to revamp and reform the corporate credit union system. NCUA sought and received credit union input at every step of the process.

Writing New Regulations—In early 2009, NCUA solicited general public comment on whether comprehensive changes to the structure of the corporate system were warranted. NCUA received more than 440 comments, most of which were in support of major reform.

In late 2009, the NCUA Board issued a Notice of Proposed Rulemaking containing extensive, specific proposed revisions to NCUA's corporate rule. The proposed revisions covered corporate capital, prompt corrective action, investments, asset liability management, credit union service organizations, and governance.

Two primary purposes drove these proposed revisions. First, NCUA wanted to design a corporate rule that would prevent the catastrophic losses that occurred in the corporate system beginning in 2007 from ever recurring again. Second, NCUA wanted to allow for the survival of some form of a well-run corporate system that could build and attract sufficient capital while providing consumer credit unions with necessary services, including payment systems services.

NCUA received extensive comments from all over the credit union system. In all, NCUA received 815 comment letters totaling more than 2,600 pages of comments.

In September 2010, NCUA issued major revisions to the corporate rule in final form. Since the 2007–2008 losses in the corporate system resulted almost entirely from private label residential mortgage-backed securities (RMBS) with many of the worst performing of these securities being subordinated RMBS, the final rule prohibited corporates from purchasing these types of securities.

The final rule included additional investment, credit risk, asset liability management, liquidity, and capital measures so as to greatly reduce the systemic risk posed by the corporates regardless of the cause or ramifications of potential future crises. These corporate rule revisions will phase in over a multi-year period to give corporates

and their members an opportunity to plan for and adapt to the new corporate landscape.

Transparency through Town Hall Meetings—

NCUA employed various communications strategies to solicit input on the proposed regulations and to let credit unions know about the elements and implementation of the final corporate credit union rule. One key element of NCUA's transparency strategy was the town hall meeting.

After final adoption of rule revisions in September 2010, NCUA launched a series of town hall meetings. NCUA Board Members and staff crossed the country presenting eleven in-person and virtual town halls. In addition to discussing the purpose, elements, and implementation timetable for the final corporate rule, these town halls addressed the broader issues surrounding the corporate resolution and allowed credit union stakeholders to put their questions directly to the NCUA leadership.

The turnout for these town halls and the associated interaction was tremendous, surpassing 2,400 people.



Alexandria, Va. — NCUA Board Chairman Matz and Board Members Hyland and Fryzel award Larry Fazio and his team an award for their role in the corporate resolution process.

Corporate Rule Amendments Proposal—In November 2010, the NCUA Board issued a follow-on proposal containing several potential amendments to the corporate rule, including:

- Incorporating certain audit, reporting, and audit committee practices from the Federal Deposit Insurance Act, Part 363 of the Federal Deposit Insurance Corporation Regulations, and the Sarbanes-Oxley Act of 2002;
- Requiring corporates to establish enterprise-wide risk management committees staffed with at least one independent risk management expert;
- Allowing corporates to charge their members reasonable one-time or periodic membership fees;
- Requiring corporates to conduct all board of director votes as recorded votes and include the votes of individual directors in the meeting minutes; and
- Requiring the disclosure of compensation received from a corporate credit union service organization by certain highly compensated corporate credit union executives.

As 2010 came to a close, NCUA was in the process of receiving and considering public comments on this follow-on corporate rule proposal.

Implementing the Temporary Corporate Credit Union Stabilization Fund

Given the structure of the NCUSIF and existing law in early 2009, NCUA would have been required to assess the costs of the corporate stabilization efforts to all credit unions in one lump sum. To give the NCUA Board flexibility to manage the impact of the costs to consumer

credit unions, NCUA requested Congress establish the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund).

On May 20, 2009, the Helping Families Save Their Homes Act of 2009 was signed into law and created the Stabilization Fund, allowing costs to be assessed over a seven-year period instead of in one lump sum. In September 2010, the life of the Stabilization Fund was extended until June 2021. The creation and extension of the Stabilization Fund was a critical tool in helping to ease the immediate impact on the credit union system of the cost of resolving the corporate crisis.

In addition to the Stabilization Fund provision, the Helping Families Save Their Homes Act of 2009 increased the NCUA's authority to borrow from the U.S. Treasury from \$100 million to \$6 billion, an aggregate total available to both the Stabilization Fund and the NCUSIF. The enhanced authorities permitted NCUA to more fairly and effectively distribute the insurance costs associated with the current economic downturn, including not just the costs of the corporate losses but also other costs that may arise. The Stabilization Fund must repay the U.S. Treasury, with interest, all amounts borrowed. As such, the total costs of the corporate stabilization, resolution, and reform efforts will be fully borne by credit unions with the flexibility to absorb those costs over a longer period of time.

Continuing the Temporary Corporate Credit Union Share Guarantee Program

As confidence in the corporate credit union system began to decline in late 2008 it became crucial for NCUA to take action to stem the resulting deposit outflow. If

shares in corporates continued to decline it would have become necessary for the corporates to sell the distressed mortgage-related securities and recognize the associated losses. Such an outcome would have threatened the future viability of the entire credit union system.

To address the problem, in January 2009 the NCUA Board adopted the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), which guaranteed uninsured shares, excluding capital accounts, at participating corporate credit unions. In April 2009, the TCCUSGP was revised to cover accounts with maturities of two years or less to bring the guarantee structure in line with the projected time frame for the completion of the corporate resolution process. The TCCUSGP is set to expire Dec. 31, 2012.

The TCCUSGP proved to be vital to NCUA's efforts in maintaining the confidence of consumer credit unions in the corporate system. Not only did it stop the outflow of shares, funds actually came back into the corporate credit unions. As corporate credit unions were able to maintain funds to meet their liquidity needs, the NCUA Guaranteed Note initiative was launched and successfully implemented.

Maximizing Value and Minimizing Assessments through NCUA Guaranteed Notes

After NCUA successfully stabilized the severe losses from a decline in the value of mortgage-backed securities held by corporate credit unions, the agency created the NCUA Guaranteed Note (NGN) initiative in conjunction with the Corporate Resolution Plan. This securitization program provides long-term

funding for troubled (legacy) assets formerly held in the securities portfolios of certain corporate credit unions.

NCUA issued the NGNs in a series of securitizations beginning in October. These securities were predominantly structured as floating-rate amortizing notes. These notes approximated the cash flows of floating-rate underlying securities. Some fixed-rate NGNs were also issued.

This program isolated a total of almost \$50 billion in legacy assets held by these institutions. NCUA secured the services of Barclays Capital of New York to facilitate funding these legacy assets in the markets. By the end of 2010, NCUA had completed 60 percent of its NGN deals, with the anticipation of securitizing the remainder of the legacy assets in 2011.

Isolating legacy assets prevented the need to sell them at severely distressed prices. Securitizing and giving them a U.S. Government guarantee, and then selling them to investors on the open market provided financial resolution. This key component of NCUA's Corporate Resolution Plan successfully ensured NCUA resolved the situation at the lowest possible cost, consistent with sound public policy.

Regulating Credit Unions Responsibly

In the agency's ongoing efforts to regulate credit unions responsibly and protect the NCUSIF from losses, NCUA relied on the agency's 2006–2011 Strategic Plan. This document provides a framework for guiding the agency's regulatory program and supervisory actions.

Together, these goals guided NCUA's actions through a very difficult period in the financial industry as a whole,



Las Vegas, Nev. — Board Member Gigi Hyland attends the 2010 International Credit Union Regulators Network.

and helped to ensure the resiliency of the credit union industry during the recent financial crisis. These goals have also facilitated NCUA's decision to return to a 12-month examination cycle for credit unions, a change that NCUA continued to implement in 2010.

The strategic goals further led the NCUA Board to finalize several safety and soundness regulations in 2010. Some notable rule changes included establishing the fiduciary duties of federal credit union directors; creating a loss-share pilot program for resolving problems at large, complex credit unions; and modifying the agency's Regulatory Flexibility program to increase prudential protections.

Overview of Examination Program

In cooperation with state supervisory authorities, NCUA exam staff continued to work to maintain the safety and soundness of those credit unions insured by the NCUSIF. In all, NCUA exam staff completed 12,376 supervisory contacts in 2010. Additionally, NCUA staff spent nearly 635,000 hours examining credit unions in 2010, an increase

of nearly 8.7 percent compared to the prior year. The table below depicts in greater detail information about NCUA's supervisory contacts in 2009 and 2010.

Through continued vigilance, NCUA averted additional realized losses to the NCUSIF in 2010. One of the main components in the strategy to minimize NCUSIF losses was the return to a 12-month examination cycle, rather than the 18-month cycle.

NCUA Examination and Supervision Field Staff by Region

Region	Full-time Employees on Board
I	131
II	206
III	133
IV	138
V	91
All	699

As NCUA began to implement a more frequent examination cycle, it increased staffing and training in 2010.

By year's end, NCUA had deployed nearly 700 full-time equivalent employees within the agency's five regions. NCUA also completed 61,136 hours of training in 2010.

The hiring and training of examination staff facilitated the ability of NCUA to maintain a safe, sound and healthy credit union system.

To limit the NCUSIF's losses in the long term, NCUA actively pursued a supervisory policy designed to expeditiously mitigate identified problems at credit unions. In this regard, Board Chairman Matz testified to Congress in December 2010 that NCUA will not allow issues at credit unions to remain unresolved without the agency issuing appropriate administrative remedies.

Requiring credit unions to promptly address identified problems has helped to save all federally insured credit unions hundreds of millions of dollars in additional

NCUA's Supervisory Contacts in 2009 and 2010

Type of Exam	2009		2010	
	Number of Exams	Hours for Exams	Number of Exams	Hours for Exams
Small Credit Union Program	390	9,584	371	9,835
Fair Lending Review	24	2,561	26	2,535
Chartering/Field of Membership	1	29	1	2
Exam Regular – FICU	3,846	363,991	3,897	382,204
Exam Regular – FISCU	543	63,399	710	87,258
5300 Program SCU	0	0	1	1
Supervision On-site – FICU	2,756	93,231	2,720	97,742
Supervision On-site – FISCU	669	37,944	743	41,610
Review of State Exams	2,134	6,895	2,130	6,136
Supervision Off-site – FICU	1,260	4,858	1,434	5,390
Supervision Off-site – FISCU	278	1,656	340	2,055
CUSO Review	1	11	3	87
Totals	11,902	584,159	12,376	634,855

insurance premiums. The policy prevents smaller problems at individual credit unions from growing into bigger problems.

NCUA's supervisory actions resulted in four conservatorships during the year, as well as less severe actions such as preliminary warning letters, letters of understanding and agreement, and cease-and-desist orders. As shown in the chart on the right, NCUA relied most often on letters of understanding and agreement to correct identified problems at credit unions. By being proactive, diligent and persistent in working with natural person credit unions, NCUA met its overarching purpose as an agency—that of serving as regulator and insurer of credit unions. In doing so, NCUA reduced the loss impact to both NCUSIF and members alike.

Summary of 2010 Supervisory Actions at Natural Person Credit Unions

Preliminary Warning Letter	86
Letters of Understanding and Agreement (Non-Published)	330
Letters of Understanding and Agreement (Published)	3
Cease and Desist Orders	28
Conservatorships	4

St. Paul Croatian Federal Credit Union's failure raised NCUA's awareness of the need for examiners to remain vigilant with professional skepticism and curiosity. The Office of Inspector General in its Material Loss Review of this case identified the main causes of the failure as money laundering, weak management, fraudulent loans, and collusion among credit union management and staff. These findings have heightened the efforts of NCUA to train its staff to ask critical questions and to communicate with vendors of credit unions.

During 2010, NCUA also completed 17 postmortem reviews of failed natural person credit unions. Without exception, ineffective management contributed to the closure in each case. The reports also noted missed opportunities for NCUA to initiate or escalate administrative actions. In response, NCUA has issued internal guidance and provided training to remind examiners of the available remedies and enforcement actions.

Transition to a 12-Month Examination Cycle

NCUA has the responsibility to protect the long-term health of the credit union industry and to safeguard member deposits in these institutions. To improve the effectiveness

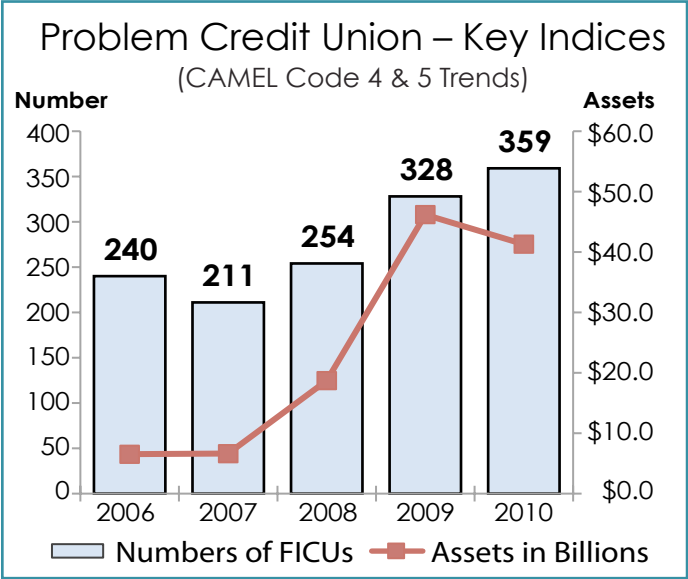
Summary of Liquidations and Conservatorships

Overall, NCUA closed 28 natural person credit unions in 2010. NCUA resolved these failures via 10 assisted mergers, five liquidations, and 13 purchase and assumptions. NCUA ultimately placed four natural person credit unions into conservatorship. At the end of the year, two of these credit unions—Arrowhead Central Credit Union and AEA Federal Credit Union—continued to operate under conservatorship status, as both institutions moved toward recovery.

The largest natural person credit union liquidation in 2010 was St. Paul Croatian Federal Credit Union. The credit union's failure has cost the NCUSIF more than \$180 million in losses to date. This failure also now stands as the largest single fraud event in NCUSIF history.

of the agency’s regulatory program and better achieve these objectives, the NCUA Board approved in late 2009 a budget for 2010 designed to strengthen supervision in conjunction with shortening the examination cycle for credit unions from 18 months to 12 months. NCUA adopted this change to identify emerging problems promptly at individual credit unions and implement actions to mitigate these problems as quickly as possible.

In making the decision to return to a 12-month examination cycle, NCUA determined that explosive growth in risky decisions by credit unions had occurred in the 18 months between examinations. In one instance, a credit union ramped up a home equity line of credit program without controls to mitigate the risk. This program grew nearly 500 percent in between examinations and produced a weak portfolio that ultimately led to the failure of the credit union and sizable losses for the NCUSIF. A 12-month cycle might have led to the implementation of controls that could have prevented this failure.



The chart above illustrates the need for additional examiner resources and supports the 12-month exam cycle. The

number of credit unions with CAMEL 4 and 5 designations has steadily increased between 2007 and 2010. Credit unions coded CAMEL 4 and 5 require greater supervision by NCUA. This supervision monitors the performance of poorly performing credit unions and reviews the implementation of corrective actions by the credit unions.

Review of New Prudential Rules in 2010

NCUA’s efforts to responsibly regulate credit unions and protect the NCUSIF from losses resulted in the finalization of a number of prudential regulations by the NCUA Board in 2010. In developing new rules and modifying existing standards, NCUA seeks to strike a balance between maximizing the effectiveness of the regulation while minimizing the burden for credit unions, consistent with safety and soundness. A discussion of the significant prudential rules adopted by NCUA during the year follows.

Fiduciary Responsibilities of Federal Credit Union Directors—NCUA finalized a rule on the general authorities and duties of federal credit union directors. Prior to this rulemaking, directors of federal credit unions usually had to look to the law of the state in which they were located to determine their duties. The new rule standardizes and clarifies the fiduciary duties of board directors without regard to the location of a federal credit union.

With this rulemaking, the NCUA Board made clear that federal credit union members own their credit unions, and that the directors of a federal credit union have a duty to act in the best interests of the membership as a whole. This part of the rule ensures credit union law aligns with the consumer-oriented philosophy of credit unions: Namely, credit unions exist to support the millions of Americans who obtain their

financial services from credit unions, and the interests of those Americans take precedence over the interests of credit union insiders and other persons and entities.



Mt. Prospect, Ill. — Board Member Michael E. Fryzel attended the grand opening of the Polish and Slavic Federal Credit Union's new branch office in January.

unions at the lowest cost to the NCUSIF. Loss sharing is an arrangement in which a seller or receiver agrees to reimburse the acquirer of a financial institution for certain credit losses which occur post-acquisition, in the context of the disposition of troubled financial institutions. This pilot represents an innovative, sensible effort by NCUA to minimize losses to the NCUSIF and fosters a lower-cost, market-based solution to the problems associated with failures.

Regulatory Flexibility Program—To enhance the safety and soundness of credit unions, NCUA issued a final rule revising certain provisions of its Regulatory Flexibility Program. The amended provisions pertained to fixed assets, member business loans, stress testing of investments, and discretionary control of investments. Each of these revisions require federal credit unions demonstrating sustained superior performance to exercise greater caution.

Chartering and Field of Membership Manual—NCUA updated its Chartering and Field of Membership Manual to clarify community chartering policies and to make these policies more practical. These adjustments fine-tuned NCUA's chartering policies to balance a federal credit union's ability to fulfill its mission to provide reasonably priced financial services to qualifying members, with the NCUA's need to comply with the Federal Credit Union Act's requirements.

Appraisal and Evaluation Guidelines—For the first time, NCUA joined with federal banking agencies to issue Interagency Appraisal and Evaluation Guidelines. The guidelines, which superseded previous guidance, emphasize the need for appraisal independence, which requires separating the real estate valuation function from the loan approval process of an institution, while giving some

24 Mortgage Loan Originator Registration—In conjunction with other federal agencies, NCUA issued final rules requiring residential mortgage loan originators (MLOs) who are employees of certain federally regulated institutions to meet the registration requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008. This law requires residential MLOs employed by agency-regulated institutions, including credit unions, to register with the Nationwide Mortgage Licensing System and Registry. NCUA's rule establishes registration requirements for residential MLOs and requirements for credit unions, including the adoption of policies and procedures. The rule becomes effective July 2011.

Loss-Share Pilot Program—The NCUA Board authorized the creation of a Loss-Share Pilot Program as a potential option for resolving large, complex problem credit

flexibility to smaller institutions. In addition, the guidelines expand the minimum appraisal standards and include a new section on evaluation development. The new guidelines also address procedures for new technology.

Merger Partner Registry—In response to requests from credit unions, NCUA announced the creation of the Merger Partner Registry. This registry provides a value-added tool for assisted mergers or purchase and assumptions that includes a wider pool of credit unions from which to solicit potential partners; a centralized data location; and parity in opportunity among credit unions.

The registry does not change the process for voluntary mergers between healthy credit unions. Rather, the registry provides an improved process for resolving troubled institutions where NCUA offers financial assistance from the NCUSIF.

In 2010, 1,200 credit unions used the registry to express their interest in becoming a potential partner for a merger facilitated by NCUA.

NCUA Operations Tightly Funded

NCUA maintained the agency's commitment in 2010 to tightly fund the agency's operations.

Operating Fee Assessment—For the 2010 operating fee scale, the assessment rates charged to natural person credit unions decreased by 1.58 percent from the 2009 rates. This decrease was due in part to the growth of credit union assets on which the assessment is based. A total of \$86.8 million was collected in operating fees during 2010 as compared to \$81.7 million in 2009.

Overhead Transfer Rate—The Operating Fund charges the National Credit Union Share Insurance Fund for insurance-related expenses through an overhead transfer. The overhead transfer rate, based primarily on the amount of insurance work performed by NCUA staff, is calculated annually and applied to actual expenses. For 2010, the overhead transfer rate was 57.2 percent and resulted in transfers received by the Operating Fund of nearly \$114 million.

Operating Expenses—NCUA's 2010 operating budget was \$200.9 million. Operating expenditures totaled \$196.0 million, a 98 percent utilization. Seventy-two percent of all operating expenses are driven by employee pay and benefits. During 2010, NCUA hiring efforts increased staff on board by 93 based on an authorized level of 1,131.

Remaking Consumer Protection

NCUA took many significant steps to enhance consumer protection during the year, and 2010 may well become known as the year for consumer protections within the financial services sector as a result of the actions taken by Congress and regulators.

After Congress permanently raised the NCUSIF's \$250,000 coverage limit as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, NCUA set out to educate credit union member-owners and the public about deposit insurance protections.

NCUA also finalized a regulation creating a workable, affordable lending product for credit unions to offer their

members as an alternative to the predatory loans offered by payday lenders. This innovative rule allows credit unions to offer safer, consumer-friendly small-dollar loans to borrowers. Moreover, NCUA educated credit unions and circulated sample notices about the Federal Reserve's new rules on overdraft fees aimed at better protecting consumers.

Organizationally, NCUA created its new Office of Consumer Protection and began coordination with the new Consumer Financial Protection Bureau. Lastly, NCUA entered into a groundbreaking financial literacy education partnership with the U.S. Department of Education and the Federal Deposit Insurance Corporation.

Federal Share Insurance Protections Gain Nationwide Exposure

As part of the Dodd-Frank Act, Congress made permanent the temporary increase in deposit insurance coverage levels for banks, thrifts and federally insured credit unions.



LOOKING FOR A
SAFE PLACE FOR
YOUR MONEY?
LOOK FOR THIS.



Renowned personal finance expert, Suze Orman, appeared in television ads, billboards, and other public service messages across the country explaining the similarities between NCUA and FDIC protection for deposits.

As a result, federally insured credit union deposits are now protected up to \$250,000 per account.

In implementing the permanent increase, NCUA went above and beyond by initiating a multimedia effort to educate consumers about the change and to inform them of the similarities between the protections provided by the NCUA and the Federal Deposit Insurance Corporation. The public awareness effort featuring personal finance expert and financial advisor to millions—Suze Orman—used online outreach tools, a dedicated website, ad placements, and free public service announcements.

NCUA designed the “Keep Your Money NCUA-Safe” campaign to inform credit union members and other consumers about the safety of credit union deposits insured by the federal insurance fund NCUA administers, and to provide specific information about how to maximize protections under insurance coverage limits. At a time of continued economic uncertainty, this informational outreach also worked to reassure consumers about this vital public benefit.

Donated advertising for the NCUA-Safe campaign topped \$2.6 million during 2010. Commercials aired on national cable, local television and radio networks. The campaign also was featured in print, including twice hourly appearances for six weeks on an electronic billboard in New York City's Times Square at the end of the year. The campaign is scheduled to continue into 2011.

Short-Term Loan Program Aims to Help Small-Dollar Borrowers

To provide consumers with an affordable alternative to costly payday loans, NCUA finalized a new rule with a

strong set of consumer safeguards allowing federal credit unions to make short-term, small-amount loans and to extend lines of credit to their members.

The regulation offers consumers a practical alternative to the products offered by predatory lenders. The rule also gives federal credit unions a tool to enhance their outreach to consumers, particularly those in low-income communities who need greater access to mainstream financial services.

Under the new regulation, federal credit unions may charge a higher interest rate for short-term, small-amount loans, provided that these loans meet certain conditions designed to protect consumers. The rule sets an interest rate maximum for these short-term loans of 1000 basis points above the general interest rate ceiling, as set by the NCUA Board.

The ability to make short-term, small-amount loans and earn a sufficient return on the investment will help federal credit unions to fulfill their mission of promoting thrift and meeting the credit needs of consumers, particularly those of modest means. NCUA plans to monitor the implementation of this new rule to determine its effectiveness and the need for further modifications to protect consumers.

Overdraft Protections Highlighted

The Federal Reserve Board issued final rules in November 2009 designed to prohibit financial institutions from charging overdraft fees on automated teller machine transactions and one-time debit card transactions, unless the consumer first opts into overdraft services for those types of transactions.

To ensure compliance with these new rules, NCUA worked in 2010 to educate credit unions about the Federal Reserve's new overdraft regulation. These efforts included the development and distribution of succinct sample consumer notices to assist credit unions in informing their members of the new rules.

Office of Consumer Protection Established to Better Safeguard Members

The NCUA Board created the Office of Consumer Protection (OCP) to demonstrate the increased importance the agency has placed on consumer protection. By centralizing all NCUA activities associated with consumer protection rules, the office fosters enhanced, efficient oversight of credit union compliance. Amongst its many duties, OCP also works to promote financial literacy. NCUA's new consumer protection group consists of two divisions—the Division of Consumer Compliance and Outreach and the Division of Consumer Access.

The consumer compliance and outreach unit has responsibilities for consumer protection and consumer compliance policy, programs and rulemaking; interagency liaison responsibilities for consumer protection and compliance issues; fair lending examinations; NCUA's consumer call center operations; and consumer financial literacy and capability programs. In addition, the role and public profile of NCUA's Ombudsman has been elevated and is assigned to the Division of Consumer Compliance and Outreach.

With the exception of processing all complaints from credit union members, OCP's Division of Consumer

Compliance and Outreach assumed responsibility for its functions during 2010. By year's end, the Division of Consumer Compliance and Outreach handled complaints for one of NCUA's five regions. After the unit completes its implementation of a customer relationship management system, expected in June 2011, the division will process all consumer-related complaints received from members of the credit unions.

OCP's Division of Consumer Access has the responsibility for new charters, charter conversions, field-of-member expansions, bylaws amendments, and low-income designations. OCP's consumer access group, by the end of 2010, had assumed responsibility for reviewing and approving new charters from the Office of Small Credit Union Initiatives. The unit had also taken over Region II's duties related to charter conversions, field-of-membership expansions, bylaw amendments and low-income designations. The Division of Consumer Access will complete its transfer of these functions for the four remaining NCUA regions by July 2011.

Coordination with New Consumer Financial Protection Bureau Started

The Dodd-Frank Act established a new entity—the Consumer Financial Protection Bureau (CFPB)—to consolidate within one agency the authority to write consumer financial protection rules and to supervise banks, thrifts, and credit unions with more than \$10 billion in assets, among other things.

To ensure the smooth transfer of consumer compliance responsibilities, NCUA's Consumer Protection, General Counsel, and Examination and Insurance offices began

working closely with the CFPB's implementation team during the second half of 2010. Matters addressed included:

- What consumer compliance rules and regulations will fall under the CFPB's purview and which ones will remain with NCUA;
- NCUA's process for resolving consumer complaints;
- The process for sharing consumer complaint information between the agencies;
- CFPB's anticipated consumer compliance examination program;
- The procedures for sharing examination information between the two agencies; and
- The number of staff to be transferred from NCUA to CFPB.

CFPB will officially open its doors in July 2011. During this transition period, NCUA is committed to ensuring the transfer of consumer compliance responsibilities will be seamless for credit unions and their members.

Financial Education and Literacy Advanced through Interagency Partnership

In November, NCUA signed an agreement with the Federal Deposit Insurance Corporation and the U.S. Department of Education aimed at helping students and families save for college and at encouraging the development of smart money habits. The agreement also seeks to put millions of students on the path to financial success.

The parties to the agreement pledged to work together to facilitate partnerships among, and to challenge, schools, financial institutions, federal grantees and other

stakeholders to:

- Provide effective financial education;
- Increase access to safe, affordable and appropriate accounts at federally insured banks and credit unions; and
- Encourage saving.

The potential for impact is high, particularly for small credit unions serving low-income communities.

One aspect of the agreement allows NCUA to support the U.S. Department of Education's college access grantees, which engage more than one million low-income K-12 students striving for higher education. The partnership also seeks to combat a lack of financial literacy, considered a major roadblock on the path to college access and success. As part of the partnership, NCUA plans to work to increase participation in the National Financial Capability Challenge, a voluntary awards program designed to challenge educators to teach high school students the basics of personal finance and reward success.

Implementing New Statutory Responsibilities

On the legislative front, the framework for U.S. financial regulation changed considerably in 2010. In July, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act. In changing the rules governing the financial system, this law requires NCUA, like other regulators, to take a number of actions within short timeframes. NCUA responded in the latter half of 2010 by commencing efforts to implement the mandated reforms. In late December, Congress also approved legislation



Alexandria, Va. — Department of Education Secretary Arne Duncan, FDIC Chairman Sheila Bair and NCUA Chairman Debbie Matz sign the Youth Financial Education Collaboration Agreement.

dubbed the NCUA Toolbox. Proposed by NCUA, this law clarifies and improves the authority to manage the Temporary Corporate Credit Union Stabilization Fund in a way that will save credit unions hundreds of millions of dollars over the long term.

Additionally, during 2010 NCUA continued to support two important legislative initiatives affecting credit unions. In December testimony before the Senate Banking Committee and in a February letter to the Secretary of the Treasury, NCUA advocated lifting restrictions on member business lending, consistent with safety and soundness. In Senate testimony and other communications with Congress, NCUA also advocated for allowing qualifying credit unions to issue supplemental capital.

Executing the Dodd-Frank Act's Reforms

In response to the financial crisis, Congress passed the Dodd-Frank Act. Signed into law in July, the statute alters

the way that the U.S. financial sector functions. Among other things, the new law aims to empower consumers and investors, mitigate problems identified during the financial crisis, and ensure the future stability of the U.S. financial system. As a result of the law, NCUA must issue several new rules, revise some existing regulations, pursue organizational reforms, and take on additional duties.

In rewriting the rules of the financial marketplace, NCUA recognizes the need to adopt regulations tailored to the unique circumstances of credit unions. NCUA seeks to impose the least possible burden on credit unions, especially smaller ones, consistent with safety and soundness and the requirements of the law.

Some of the key regulatory changes resulting from the Dodd-Frank Act for NCUA to implement include:

30 Credit Ratings Reform—Congress determined that the inflated grades of credit rating agencies exacerbated the financial crisis. The new law therefore requires all regulators to replace credit rating rule references with new creditworthiness standards that regulated entities must follow. NCUA began work on these rule changes in 2010 and will issue a proposed rule in early 2011.

Share Insurance Protection Enhanced—As noted in the previous section on consumer protection, the new law permanently raised the maximum amount of share insurance protection to \$250,000 per account. NCUA satisfied this requirement with the issuance of a revised rule in September 2010.

Incentive-Based Compensation Disclosures—Congress concluded that incentive-based compensation packages led many financial executives and professionals

to favor short-term self gain over long-term financial stability. As a result, the law requires credit unions and other regulated entities with more than \$1 billion in assets to disclose the structures of their incentive-based compensation practices. Credit unions above \$10 billion in assets have additional obligations. NCUA began working with other financial regulators in 2010 to develop these new joint rules.

The reforms incorporated into the Dodd-Frank Act also require NCUA to implement internal organizational reforms, coordinate with new regulatory entities, and undertake new duties. Some key actions undertaken by NCUA resulting from the law include:

Financial Stability Oversight Council—The Financial Stability Oversight Council works to monitor and ensure the stability of the U.S. financial system. As one of 10 voting members, NCUA has new responsibilities to raise the distinctive perspective of credit unions within the Council, and to look more broadly at the threats facing the global financial system. The Council began meeting regularly in late 2010.

Office of Minority and Women Inclusion—As required by the law, NCUA initiated planning for the implementation of a new office focused on monitoring diversity of employment at NCUA and in credit unions. The Office of Minority and Women Inclusion will also promote the use of minority and women contractors at NCUA.

Consumer Financial Protection Bureau—Congress created the Consumer Financial Protection Bureau because the predatory financial products sold to consumers contributed greatly to the financial crisis. The new agency, as noted earlier, is charged

with writing new consumer rules and supervising consumer compliance at financial institutions with more than \$10 billion in assets. In the latter half of 2010, NCUA started coordinating with the Consumer Financial Protection Bureau's implementation team at the U.S. Department of the Treasury on employee transfers, data sharing, and plans for coordinated exams.

Reducing the Costs of the Corporate Stabilization Fund

In 2010, NCUA proposed legislation to reduce the costs of managing the Temporary Corporate Credit Union Stabilization Fund by hundreds of millions of dollars. The Senate and House unanimously passed S. 4036 shortly after NCUA Board Chairman Matz testified before the Senate Banking Committee in December.

Referred to as the NCUA Toolbox within the agency, this law provides new authorities to reduce the costs of managing the National Credit Union Share Insurance Fund and the Temporary Corporate Credit Union Stabilization Fund. With the enactment of the NCUA Toolbox, America's credit unions will be better equipped to raise return on assets, strengthen capital, and serve more members for years to come.

As proposed by NCUA, the NCUA Toolbox had three main components:

Provides Capital Assistance—The first amendment strengthens NCUA's ability to help credit unions complete emergency mergers. Before this amendment became law, a recent change in merger accounting diluted the net worth of recipient credit unions—thus discouraging mergers. As a result, some



Washington, D.C. — NCUA Chairman Debbie Matz is greeted by Senator Tim Johnson before her state of the credit union industry testimony in December.

troubled credit unions had to be liquidated because potential merger partners could not afford to absorb the impact on capital. Under the new law, NCUA assistance to failing credit unions will be counted as capital by surviving credit unions. Minimizing liquidations will reduce costs to the Share Insurance Fund and provide members of troubled credit unions with continued services from healthy credit unions.

Prevents Artificial Insurance Premiums—The second amendment prevents credit unions from being assessed artificially inflated insurance premiums. The new law clarifies that the equity ratio of the National Credit Union Share Insurance Fund is based solely on its own unconsolidated financial statements. This eliminates any confusion about whether the Share Insurance Fund is required to consolidate statements with credit unions under conservatorship. Preventing conserved credit unions' losses from being charged against the Share Insurance Fund's equity ratio ensures that credit unions will not have to pay hundreds of

millions of dollars in additional insurance premiums as a result of conservatorships.

Eliminates Interest on Assessments—The third amendment allows NCUA to repay expenditures from the Corporate Stabilization Fund without first having to borrow from the U.S. Department of the Treasury. For the past two years, the statute had required NCUA to borrow from the U.S. Treasury before assessing costs to credit unions. Eliminating this unnecessary borrowing will save credit unions about \$60 million in interest payments over the next 10 years.

During the legislative process, lawmakers added a fourth provision to the NCUA Toolbox. This amendment requires the Government Accountability Office to look back at NCUA's resolution of the corporate credit union crisis. NCUA will work in 2011 to implement the three NCUA Toolbox changes it proposed and to cooperate with the Government Accountability Office on the forthcoming study.

Supporting Small, Low-Income and Community Development Credit Unions

NCUA recognizes the ongoing need to assist small, low-income and newly chartered credit unions. Within NCUA, the Office of Small Credit Union Initiatives (OSCUI) has the primary responsibility for addressing the unique needs of these institutions.

In 2010, NCUA worked to support small, low-income and community development credit unions in several ways. Notably, OSCUI facilitated the distribution of more than \$67.1 million in secondary capital to 48 low-income credit

unions via the U.S. Treasury Department's Community Development Capital Initiative. The initiative aims to increase lending in low-income communities affected by the economic downturn started in 2008. NCUA also revised its rules to allow credit unions to participate in the Treasury Department initiative.

During the course of the year, the Community Development Revolving Loan Fund (CDRLF) awarded funds to 210 low-income credit unions. OSCUI's team of economic development specialists additionally provided 8,760 hours of assistance to small, low-income and



Jefferson City, Mo. — Missouri Credit Union Association President Rosie Holub invites NCUA Chairman Debbie Matz to the "Home of Missouri's Credit Unions". The first of its kind in a state capital, the refurbished historic two-story facility serves as a meeting site for credit unions from around the state.

community development credit unions. More than 2,000 individuals received training at OSCUI's workshops and roundtables, too.

Community Development Capital Initiative and Low-Income Credit Union Capital Rule

On February 3, 2010, the U.S. Department of the Treasury announced the details of the Community Development Capital Initiative (CDCI). As part of the Administration's efforts to improve access to credit in communities hardest hit by the economic downturn and spur economic growth, this initiative made lower-cost capital available to Community Development Financial Institutions (CDFIs). The initiative required CDFIs to use the received funding to expand lending to small businesses and to support economic growth in low-income areas.

Following the Treasury Department's announcement, the NCUA Board approved a rule on the use of secondary capital by low-income designated credit unions (LICUs) to enable LICUs to participate in the CDCI. The rule changed NCUA's regulations concerning the redemption of secondary capital by LICUs, too.

Previously, NCUA's rules limited the percentage of secondary capital LICUs could redeem prior to maturation. Under the revised rule, credit unions, with approval of the NCUA Regional Director, may now redeem all or part of government-funded secondary capital along with its matching secondary capital at any time after it has been on deposit for two years. The amended rule also allows LICUs to redeem secondary capital accepted under the CDCI before interest rates on the program's secondary capital escalate.

Finally, the amended rule changes the loss distribution procedures applicable to secondary capital by making CDCI secondary capital senior to any required matching secondary capital.

Later in the year, interested credit unions submitted capital plans outlining their proposed use of CDCI funding. In all, 111 credit unions submitted capital plans—requesting an aggregate of approximately \$282 million in CDCI funding—to the regions for review. The CDCI ultimately provided more than \$67.4 million in secondary capital to 49 LICUs. NCUA's coordination with the Treasury Department and support for the CDCI ensured considerable participation by credit unions in the Administration's economic development initiative.

Activities of the Community Development Revolving Loan Fund

NCUA remains committed to assisting the work of community development credit unions. The CDRLF is a key mechanism by which NCUA supports the work of these institutions. Administered by OSCUI, the CDRLF provides financial assistance in the form of technical assistance grants and loans to help credit unions to provide services, undertake certain programs, and stimulate economic activities in their communities.

During 2010, NCUA expanded the list of eligible activities for CDRLF grants. The enhanced categories now allow LICUs to compete for funding to provide financial education, offer student internships, create jobs, and pursue community outreach. NCUA also made CDRLF grants available for credit unions to develop plans in order to apply for secondary capital from the Treasury Department's CDCI. Additionally, NCUA continued to

offer CDRLF loans and grants to help LICUs pursue staff and board training, enhance their technology and internal processes, offer the Volunteer Income Tax Assistance program, and meet emergency needs.

In all, the CDRLF made \$1.25 million available for grants and \$6.8 million for loans during 2010. The CDRLF also fully deployed its annually appropriated funds. To encourage loan demand, a second round of funding for CDRLF loans was opened in June, and the program was revised to an open funding round. As a result, OSCUI now accepts CDRLF loan applications year-round, subject to the availability of funds.

Small Credit Union Program and Training

Administered by OSCUI, the Small Credit Union Program provides direct assistance nationwide to eligible credit unions. Through the program, NCUA's economic development specialists consult one-on-one with a credit union's leadership team to address operational and strategic management issues. These specialists also work closely with credit union organizers and provide

guidance on other matters when requested. In all, NCUA provided 8,760 hours of assistance to small, low-income and community development credit unions during 2010.

OSCUI also continued to provide training to credit union officials nationwide through small group regional roundtables, local area clinics, and national workshops. In total, OSCUI trained 2,040 individuals representing 1,148 credit unions at training events in 2010. Topics covered at these workshops and roundtables included issues like maximizing a credit union's bottom line, calculating allowances for loan-lease losses, and providing alternatives to predatory lending products, among others.

Leveraging Human Resources, Technology and Communications Effectively

NCUA recognizes the need to manage its human resources, technology, and communications effectively. To carry out its mission successfully and to minimize potential financial risks to the NCUSIF, NCUA must deploy these strategic resources where they are most needed. Major accomplishments in improving the NCUA's operational effectiveness during 2010 related to personnel, technology and communications follow.

Employee Satisfaction and Commitment Improves

Each year the Partnership for Public Service uses data obtained from the Office of Personnel Management's Federal Employee Viewpoint Survey to develop the Best Places to Work in the Federal Government rankings. NCUA demonstrated measurable improvement in its performance in 2010.



Specifically, NCUA's overall scores for employee satisfaction and commitment, an important driver of organizational performance, increased by just over 12 percent from the prior year. Additionally, NCUA ranked as the sixth most improved in the survey's year-over-year rankings for small agencies. Categories where NCUA's survey scores were highest for 2010 were employee skills and mission match, teamwork, and pay.

While NCUA's demonstrated improvements in managing its human resources, the agency's leadership recognizes that opportunities exist to further enhance employee engagement and satisfaction. In this regard, the agency has begun internal efforts to better communicate with its workforce and develop new initiatives aimed at increasing the performance of the agency in the annual survey in future years.

Examiner Training Emphasized

To achieve its mission, NCUA must train its employees to effectively perform their jobs. Credit union examiners, in particular, require specialized skills and knowledge. The process of transitioning to a 12-month examination cycle required the agency to spend increased resources to train newly hired examiners

In 2010, 211 NCUA staff and 75 state examiners attended one or more of the new examiner levels training classes, accounting for 654 individual training slots. In addition to new examiner training, NCUA delivered a total of 847 internal class training slots during the year to NCUA staff and state examiners.

Additionally, 141 NCUA examiners participated in training provided by the Federal Financial Institutions Exam-

ination Council. This interagency council of banking and credit union regulators provides timely, cost-efficient, state-of-the-art training programs on specialized subject matter for examiners and staff.

Cooperative Labor-Management Relations Efforts Yield Results

To improve communications with NCUA employees, NCUA pursued two initiatives with the National Treasury Employees Union (NTEU) during 2010. NTEU represents the majority of NCUA's workforce.

First, NCUA and NTEU entered into a partnership agreement March 2, 2010. The agreement created a partnership council that meets monthly. The partnership council aims to maximize employee engagement and make the best use of the extensive knowledge, experience and



Alexandria, Va. — Chairman Debbie Matz and NTEU President Colleen Kelley announce the first partnership agreement between a federal agency and the union.

skills of NCUA's employees. The partnership agreement was the first of its kind signed between a federal agency and the union.

Additionally, NCUA and NTEU initiated an 18-month pilot project related to new technology. Together, these cooperative labor-management efforts have led to increased employee morale and a reduction in grievances and formal bargaining.

Technology Successfully Supports Mission

In 2010, NCUA's Office of the Chief Information Officer (OCIO) continued to support the agency's mission and programs by maintaining and enhancing a strong end-user computing platform, robust enterprise network infrastructure, and a modern web and social media presence.

The Technical Support Desk provided assistance to agency staff, credit unions and the general public on information technology issues ranging from hardware and communication devices to software, Call Reports and use of the agency website. The desk fielded more than 16,000 calls during the course of the year.

Proactive strategies to maintain current computer systems and implement new technology allowed availability of agency networks to once again exceed 99 percent, allowing 24/7/365 access to agency email, shared storage, Internet and custom application resources.

OCIO's website redesign and social media support were well received by the public. Some 1,380 web postings

kept agency information flowing and NCUA's web presence fresh and relevant. OCIO also initiated efforts to overhaul the appearance and presentation of NCUA's website, in addition implementing systems to enhance and support agency efforts for operational transparency.

Enhancing Communication with Credit Unions

In 2010, NCUA worked diligently to strengthen its outreach to and communication with credit unions. Through speeches, online webinars, town hall meetings, publications, the Internet, and letters to credit unions, NCUA sought to enhance public understanding about the agency's activities.

As noted earlier, a key component of NCUA's outreach efforts in 2010 was the nationwide series of eleven in-person and virtual town hall meetings, as well as the



Dallas — Briefers answer questions at the final town hall meeting on NCUA's Corporate Resolution Plan.

distribution of videos, about the Corporate Resolution Plan. Another major initiative involved the overhaul of the agency's monthly newsletter—*The NCUA Report*. The agency further updated its website on a regular basis and began internal plans to create a consumer-oriented website.

Answering Credit Union Questions—

Throughout 2010, NCUA pursued an aggressive external communications plan to meet with and answer the questions of credit unions. Speeches by NCUA Board Members and senior staff, webinars, podcasts and public town hall meetings were the main ways the agency communicated in person and virtually with credit unions. Presentations about NCUA's Corporate Resolution Plan dominated these communication efforts.

NCUA hosted three webinars during 2010 about indirect lending, member business lending, and technology. NCUA Board members additionally traveled around the country to deliver more than two dozen presentations. In all, NCUA reached more than 10,000 individuals in these public and virtual appearances.

Finally, NCUA issued 26 letters to credit unions and 3 letters to federal credit unions in 2010. These letters typically highlight industry trends and performance, emerging policy and regulatory issues, pending deadlines, compliance problems, grant availability and industry best practices.

Revamping the NCUA Report—At the start of 2010, NCUA unveiled a new version of its flagship publication: *The NCUA Report*. NCUA uses this free,

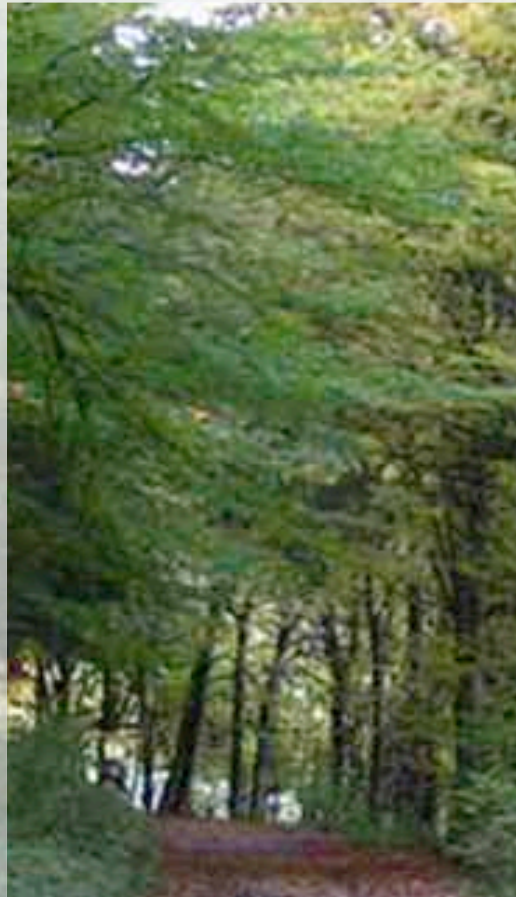


monthly newsletter to communicate directly with credit union managers and directors about the agency's proposals, policies, regulations and initiatives, as well as economic events and local trends affecting the credit union industry.

To improve the transparency of NCUA's operations, the revised newsletter offers more in-depth coverage about NCUA's work and the perspectives of NCUA Board members.

It also incorporates rotating reports from NCUA's regional offices about the conditions faced by credit unions in the field. *The NCUA Report* additionally contains updates about the rules NCUA issues and the reasons why NCUA writes these regulations.

Resilience *and the* Road Ahead



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Performance Results

Summary of 2010 Results by Strategic Goal

The National Credit Union Administration's mission is to provide through regulation and supervision a safe and sound credit union system that promotes confidence in the national system of cooperative credit.

In the agency's ongoing efforts in 2010 to regulate credit unions responsibly and protect the NCUSIF from losses, NCUA relied on the agency's current strategic plan. This plan established three goals for NCUA:

- Ensure a safe, sound and healthy credit union system;
- Provide access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States; and
- Maintain a prudent, flexible and efficient regulatory environment for all federally insured credit unions.

While 2010 proved a challenging year, NCUA achieved 12 of its 17 performance targets designed to measure these three strategic goals. NCUA set the targets at a high level to encourage long-term improvement and stabilization of the credit union system. While performance fell short on some of the desired targets, NCUA achieved an overall improvement from the agency's performance in the prior year. The failure to meet a particular target also had no material adverse effect on NCUA's achievement of its mission or strategic goals.

A summary of NCUA's performance by each of its three strategic goals follows.

Ensure a safe, sound and healthy credit union system

NCUA's corporate credit union and natural person credit union supervision programs, as well as the agency's insurance and asset management programs, contribute to the strategic goal of ensuring a safe, sound and healthy credit union system.

2010 Performance Results Highlights

- The success of the Share Guarantee and Liquidity Guarantee programs drastically reduced corporate credit union borrowings as a percent of shares and assets, from 23.6 percent and 25.5 percent respectively, to under a half percent each.
- The aggregate net worth of natural person credit unions grew by 5.15 percent in 2010.
- NCUA agency-wide efforts improved the National Credit Union Share Insurance Fund equity ratio from 1.23 percent January 1 to 1.28 percent in December, and the Insurance and Guarantee Program Liabilities balance rose from \$758.7 million to \$1.23 billion over the same period.

Other factors for this goal accomplished in 2010 include:

- Issuing a joint release with other Federal Financial Institutions Examination Council agencies to advise credit unions on measuring and monitoring interest rate risk.
- Issuing a joint statement with other federal financial regulators on lending to small businesses, recognizing that small businesses play a critical role in the economy and that regulators are working with industry to ensure that prudential policies do not curtail credit availability to creditworthy small businesses.

- Extending the successful Temporary Corporate Credit Union Share Guarantee Program until December 2012 to further assist in the stabilization of the corporate credit union system.
- Releasing a joint statement with other federal banking agencies on expectations for sound funding and liquidity risk management practices.
- Producing 26 letters to credit unions on emerging topics and pressing issues. These letters included guidance about:
 - Supervising low-income and community development credit unions,
 - Current risks and sound risk management practices,
 - Real estate and mortgage loan products and best practices,
 - The state of the credit union system, and
 - Corporate credit union stabilization efforts.
- Communicating the agency's three-phase Corporate Resolution Plan. The plan to stabilize, reform, and resolve corporate credit unions has prevented the interruption of services and has been managed to the least long-term cost. The plan has additionally facilitated an orderly transition to a new regulatory regime and future state of the corporate credit union system.
- Conserving three corporate credit unions, selecting experienced professionals to oversee their operations, and ensuring the continued safety and soundness of the system.
- Chartering bridge corporate credit unions to facilitate the corporate resolution process while maintaining uninterrupted services for member natural person credit unions.
- Conducting nationwide regional town hall

meetings with industry through which NCUA leaders discussed the new corporate rules and corporate legacy asset resolution.

- Releasing a white paper on supplemental capital to explore NCUA's authority to permit federally insured credit unions to offer supplemental capital and set forth observations and conclusions on risk management, regulatory safety, and consumer protection issues that need to be addressed to implement supplemental capital.
- Taking a voting seat on and participating in the establishment of the Financial Stability Oversight Council with other financial regulatory agencies, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Provide access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States

NCUA's Office of Small Credit Union Initiatives and Office of Consumer Protection contribute to the strategic goal of providing access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States.

2010 Performance Results Highlights

- Credit union membership grew to more than 90.5 million in 2010.
- Credit unions added more than 3 million potential members in underserved areas.
- NCUA launched a multimedia public awareness campaign to highlight the protection of deposits at federally insured credit unions.

Other factors for this goal accomplished in 2010 include:

- Initiating the “NCUA-Safe” multimedia public awareness campaign to highlight the safety of federal insurance for credit union deposits. During its first three months, the campaign garnered more than \$2.6 million in donated advertising.
- Establishing a partnership with the Federal Deposit Insurance Corporation and the U.S. Department of Education to enhance youth financial literacy efforts and increase school savings programs.
- Finalizing rules to make the \$250,000 per account share insurance protection permanent.
- Approving a rule to permit low-income credit unions to redeem all or part of their government-funded secondary capital after two years of deposit. The rule facilitates access to government funds to expand lending in low-income communities by Community Development Financial Institutions.
- Promulgating a short-term loan rule to help small-dollar borrowers to avoid predatory payday lenders.
- Expanding the range of topics for low-income credit unions to obtain grants from the Community Development Revolving Loan Fund for providing financial education, offering internships, creating jobs at credit unions, and pursuing community outreach.

Maintain a prudent, flexible and efficient regulatory environment for all federally insured credit unions

NCUA’s supervision of corporate and natural person credit unions, as well as the initiatives of the Office of Small Credit Union Initiatives and the Office of Consumer Pro-

tection, contribute to the strategic goal of maintaining a prudent, flexible and efficient regulatory environment for all federally insured credit unions.

2010 Performance Results Highlights

- NCUA Board and staff stepped up efforts to improve communications and outreach to increase the transparency of the regulatory environment through town halls, webinars, and other mechanisms.

Other factors for this goal accomplished in 2010 include:

- Conducting town hall meetings throughout the nation, through which Board members discussed the following topics with stakeholders:
 - The proposed corporate credit union rule and status of the corporate credit union system,
 - Proposed changes to the field of membership rule,
 - Member business lending, and
 - Economic challenges affecting credit unions.
- Establishing final or interim final rules in the following areas to improve the safety and soundness of the credit union system:
 - Corporate credit union system overhaul,
 - Fiduciary duties of board directors of federal credit unions,
 - Definition of low-risk assets for purposes of corrective actions,
 - Provisions of the Regulatory Flexibility program pertaining to fixed assets and member business loans,
 - Secondary capital accounts for low-income credit unions, and
 - Registration of mortgage loan originators.

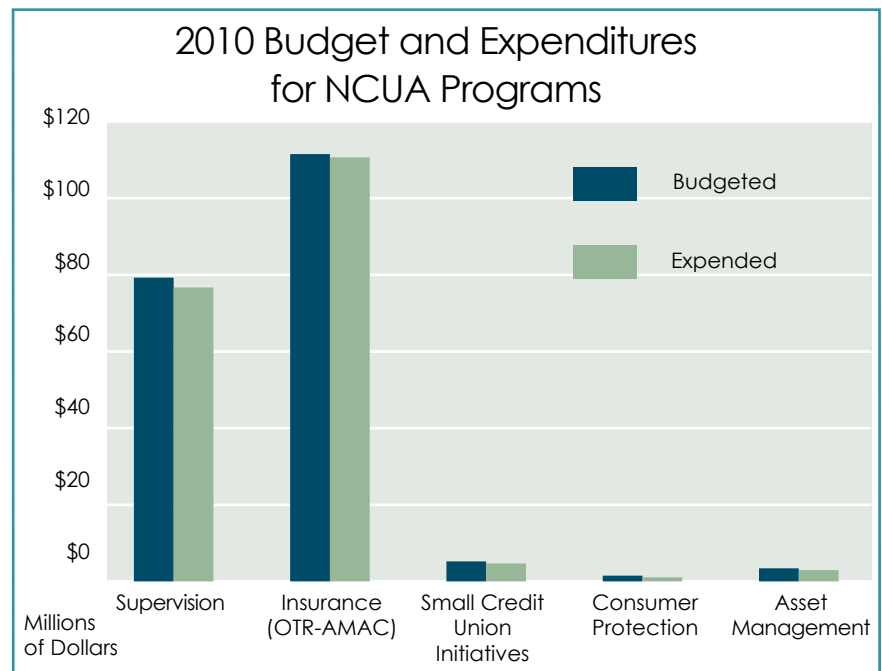
- Establishing final or interim final rules in the following areas to improve access of financial services:
 - Community chartering policies update,
 - Definition of low income for the purpose of determining low-income credit unions,
 - Permanent increase of maximum share insurance coverage to \$250,000,
 - Short-term, small-amount loans, and
 - Conversions of insured credit unions.
- Initiating and continued recording, webcasting and social media broadcasting of all open Board meetings, aimed at increasing transparency by allowing a larger audience to view the meetings.
- Continuing Board Member participation in trade association and other stakeholder events to increase communications within the credit union industry.
- Conducting numerous webinars to educate credit unions about emerging issues and NCUA initiatives.
- Finalizing the comprehensive reform rule aimed at strengthening the system by implementing stronger capital requirements and prompt corrective action for corporate credit unions, as well as establishing clear concentration limits on investments, improving asset liability management, and raising governance standards.
- Developing educational videos to help credit unions better understand the history and situation of the corporate credit union system as well as agency efforts to stabilize it. The tracks were posted online and a DVD with all three was sent to all credit unions.

Budget and Expenditures by Program

The NCUA budget for 2010 totaled \$200.9 million. NCUA allocated the majority of its budget, nearly \$114.0 million, to the insurance programs and related activities, followed by \$76.8 million for corporate and natural person credit union supervision programs. The remaining programs consist of \$5.2 million to small credit union initiatives, \$1.5 million to consumer protection, and \$3.4 million to asset management.

General and administrative costs have been allocated proportionately to each program. Agency wide, utilization of budgeted funds was 98 percent. Insurance programs had the highest utilization at 99 percent. Consumer protection had the lowest at 70 percent; however, NCUA had only started to staff this office in 2010 with the Board's intent to ensure adequate funding.

The chart below provides a graphical representation of NCUA's budget and expenditures.



2010 Performance Results

Strategic Goal:
Ensure a safe, sound and healthy credit union system

Goal	Indicator	Target	Results
A safe, sound and healthy credit union system	Core capital ratio of the corporate credit union system	Improve from prior year	Achieved
	Net worth of the credit union system continues to grow	Percentage growth from prior year improved	Achieved
Stabilize the liquidity of the corporate credit union system	Corporate credit unions reduce amount of borrowings as a percent of shares and assets	Return to under 15% for borrowings per assets	Achieved
		Drop to under 20% for borrowings per shares	Achieved
Protect the integrity and financial stability of the NCUSIF	Take enforcement actions to minimize risks and prevent credit union failures	Supervisory enforcement actions increase to address identified safety and soundness issues	Achieved
	Percentage of delinquent loans to total loans in natural person credit unions changes	Keep under 1%	Not Achieved
Encourage credit unions to reduce concentration risk	NCUA encourages credit unions to reduce the percentage of real estate loans to total loans	Reduce from prior year	Not Achieved

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Strategic Goal:
Provide access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States

Goal	Indicator	Target	Results
Provide access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States	Increase in credit unions membership	Reach 100 million by 2016	Achieved
	Increase in credit unions <ul style="list-style-type: none"> Assets Shares Loans 	Increase over prior year	Achieved Not achieved Achieved
Facilitate credit unions' ability to serve the underserved	Number of underserved areas added to credit union field of membership	Continue to add underserved areas	Achieved
		Increase potential membership in underserved areas	Achieved
Conduct outreach programs to help low-income credit unions	Attendance at NCUA outreach programs (workshops, round tables, clinics)	Attendance increases year-to-year	Not achieved
	Credit unions express value in programs	Benefit to credit union rated at least 4.5/5 in attendee survey	Achieved
	Percentage increase in low-income credit union membership growth	Membership growth increases from previous year	Partially achieved

Strategic Goal:
Maintain a prudent, flexible and efficient regulatory environment for all federally insured credit unions

Goal	Indicator	Target	Results
A prudent, flexible and efficient regulatory environment for all federally insured credit unions	Regulations are reviewed consistently year-to-year	Review one third of regulations annually	Achieved

Prior Performance Results for 2007, 2008 and 2009

Strategic Goal:
Ensure a safe, sound and healthy credit union system

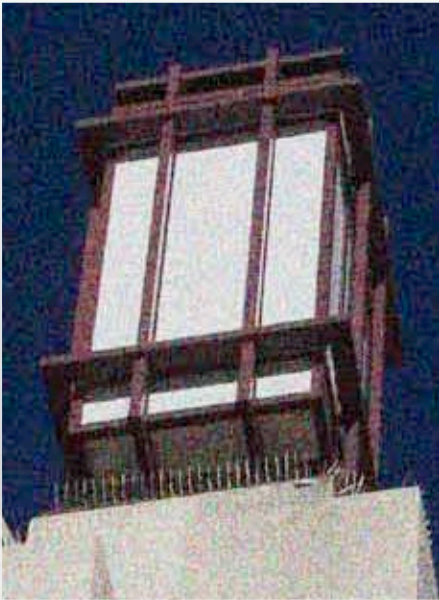
Performance Indicators and Targets	2009	2008	2007
Core capital ratio of the corporate credit union system improves from prior year	Achieved	Not achieved	Not achieved
Net worth of credit union system continues to grow (percentage growth from prior year improves)	Not achieved	Achieved	Achieved
Corporate credit unions reduce amount of borrowings as a percent of shares and assets (under 15% for borrowings per assets and under 20% for borrowings per shares)	Not achieved	Not achieved	Not achieved
Supervisory enforcement actions increase to address safety and soundness issues	Achieved	Achieved	Achieved
Percentage of delinquent loans to total loans is kept under 1 percent	Not achieved	Not achieved	Achieved
NCUA encourages credit unions to reduce the percentage of real estate loans to total loans (reduce from prior year)	Not achieved	Not achieved	Not achieved

Strategic Goal:
Provide access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States

Performance Indicators and Targets	2009	2008	2007
Increase in credit union membership (reach 100 million by 2016)	Achieved	Achieved	Achieved
Increase in credit union: <ul style="list-style-type: none"> Assets Shares Loans 	Achieved Achieved Achieved	Achieved Achieved Achieved	Achieved Achieved Achieved
Continue to add underserved areas and increase their potential membership: <ul style="list-style-type: none"> Areas added Potential members added 	Achieved Achieved	Achieved Achieved	Achieved Achieved
Attendance in outreach programs increases and credit unions see value in them: <ul style="list-style-type: none"> Individual credit unions attending Benefit as indicated on survey 	Achieved Achieved	Achieved N/A	Achieved N/A

Strategic Goal:
Maintain a prudent, flexible
and efficient regulatory
environment for all federally
insured credit unions

Performance Indicators and Targets	2009	2008	2007
Review one-third of regulations annually	Achieved	Achieved	Achieved



Resilience *and the* Road Ahead

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Financial Section

NCUA Permanent Fund Programs

The **National Credit Union Share Insurance Fund** (NCUSIF) is the federal fund created by Congress in 1970 to insure member deposits in credit unions up to \$250,000. Administered by NCUA, the NCUSIF is backed by the “full faith and credit” of the U.S. Government.

The NCUA **Operating Fund**, in conjunction with the NCUSIF, finances agency’s operations.

The **Central Liquidity Facility** provides liquidity for all member credit unions and can invest in U.S. Government and agency obligations, deposits of federally insured institutions and shares or deposits in credit unions.

The NCUA **Community Development Revolving Loan Fund** provides loans and grants to low-income designated credit unions.

In addition to the NCUSIF, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, NCUA operates the Temporary Corporate Credit Union Stabilization Fund, which will sunset in 2021. Once available, NCUA will post the results of the 2010 independent audit of the Stabilization Fund at www.ncua.gov to facilitate public transparency.

Message from NCUA's Chief Financial Officer

I am pleased to present the 2010 financial statements for the National Credit Union Administration's (NCUA) four permanent funds:

- the National Credit Union Share Insurance Fund (NCUSIF);
- the Operating Fund;
- the Central Liquidity Facility; and
- the Community Development Revolving Loan Fund.



Mary Ann Woodson
Chief Financial Officer

These statements are our principal measure of accountability to the President, Congress, credit unions, and the American public. Once again, NCUA received unqualified or “clean” opinions from our independent financial auditors, a standard of excellence set from the early 1980s.

During 2010, NCUA continued its strong commitment to effective stewardship and transparency of agency funds. NCUA utilized 98 percent of its operating budget and returned \$2.4 million of excess cash by reducing 2011 operating fee rates. We also continued to report monthly at the public Board meeting and on our Internet site the financial highlights of the NCUSIF and the Temporary Corporate Credit Union Stabilization Fund.

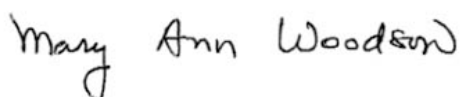
In a change from prior years, the NCUA Board acted to adopt accounting standards promulgated by the Federal Accounting Standards Advisory Board for the NCUSIF, the preferred standard for federal entities. Because of this change in accounting standards, NCUSIF financial statements present only the 2010 year.

Federal agencies must demonstrate strong internal controls and compliance with laws and regulations in today's demanding environment. Government Auditing Standards, issued by the Comptroller General of the United States, provide the framework through which auditors evaluate these matters. I am pleased that our independent auditors' report on Compliance and Other Matters and report on Internal Control over Financial Reporting did not note any material weaknesses.

Additionally, NCUA is in full compliance with all applicable laws such as the Federal Managers' Financial Integrity Act, the Prompt Payment Act, the Debt Collection and Improvement Act, and the Federal

Information Security Management Act. As required by the Improper Payments Information Act, we have determined that NCUA programs are not susceptible to a high risk of significant improper payments.

As we continue to address risks to the credit union industry and implement the Dodd-Frank Act, our commitment remains steadfast to effective stewardship and transparency. NCUA's professional culture relies upon the dedication of many individuals across of the agency and will allow us continued successes as we address tomorrow's challenges.

A handwritten signature in black ink that reads "Mary Ann Woodson". The signature is written in a cursive, flowing style.

Mary Ann Woodson
Chief Financial Officer



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Inspector General, National Credit Union Administration and
The Board of Directors, National Credit Union Administration:

We have audited the accompanying balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2010, and the related statements of net cost, and changes in net position, and statement of budgetary resources (hereinafter referred to as "financial statements") for the year then ended. These financial statements are the responsibility of the NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2010, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with U.S. generally accepted accounting principles.

The information in the Required Supplementary Information section is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 11, 2011, on our consideration of the NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

May 11, 2011

BALANCE SHEET
As of December 31, 2010
(Dollars in thousands)

	<u>2010</u>
ASSETS	
INTRAGOVERNMENTAL	
Fund Balance with Treasury (Note 2)	\$ 1,551
Investments, Net - U.S. Treasury Securities (Note 3)	10,848,272
Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4)	17,097
Accrued Interest Receivable (Note 3)	<u>72,359</u>
Total Intragovernmental Assets	10,939,279
PUBLIC	
Accounts Receivable - Capitalization Deposits from Insured Credit Unions, Net (Note 4)	183
Accounts Receivable - Premium Assessments from Insured Credit Unions, Net (Note 4)	2,036
Other - Receivables from Asset Management Estates, Net (Note 5)	143,278
General Property, Plant, and Equipment, Net	<u>38</u>
Total Public Assets	<u>145,535</u>
TOTAL ASSETS	<u><u>\$ 11,084,814</u></u>
LIABILITIES	
INTRAGOVERNMENTAL	
Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund	\$ 194
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 7)	<u>2,857</u>
Total Intragovernmental Liabilities	3,051
PUBLIC	
Accounts Payable	433
Other - Insurance and Guarantee Program Liabilities (Note 6)	<u>1,225,281</u>
Total Public Liabilities	<u>1,225,714</u>
TOTAL LIABILITIES	<u>1,228,765</u>
Commitments and Contingencies (Note 6)	
NET POSITION	
Contributed Capital (Note 10)	7,485,159
Cumulative Result of Operations	2,370,890
Total Net Position	9,856,049
TOTAL LIABILITIES AND NET POSITION	\$ 11,084,814

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET COST
For the Year Ended December 31, 2010
(Dollars in thousands)

	<u>2010</u>
GROSS COSTS	
Operating Expenses (Note 7)	\$ 117,004
Interest Expense on Borrowings (Note 7)	41,227
Fee on Early Retirement of Borrowings from the National Credit Union Administration Central Liquidity Facility (Note 7)	7,599
Insurance Loss Expense (Note 6)	<u>735,562</u>
Total Gross Costs	<u>901,392</u>
LESS EARNED REVENUES	
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4)	(397)
Interest Revenue on Loans (Note 7)	(41,227)
Fee on Early Retirement of Loans to Corporate Credit Unions (Note 7)	(7,599)
Insurance and Guarantee Premium Revenue (Note 7)	<u>(929,952)</u>
Total Earned Revenues	<u>(979,175)</u>
TOTAL NET COST/(INCOME) OF OPERATIONS	<u><u>\$ (77,783)</u></u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET POSITION
For the Year Ended December 31, 2010
(Dollars in thousands)

	<u>2010</u>
CUMULATIVE RESULTS OF OPERATIONS	
Beginning Balance	\$ 1,967,147
BUDGETARY FINANCING SOURCES	
Non-Exchange Revenue	
Interest Revenue - Investments (Note 3)	216,921
OTHER FINANCING SOURCES	
Non-Exchange Revenue	
Unrealized Gain/Loss - Investments (Note 3)	<u>109,039</u>
Total Financing Sources	325,960
Net Income from/(Cost of) Operations	<u>77,783</u>
Net Change	<u>403,743</u>
CUMULATIVE RESULTS OF OPERATIONS	<u>2,370,890</u>
CONTRIBUTED CAPITAL (Note 10)	
Beginning Balance	7,067,139
Change in Contributed Capital	<u>418,020</u>
CONTRIBUTED CAPITAL	<u>7,485,159</u>
NET POSITION	<u><u>\$ 9,856,049</u></u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF BUDGETARY RESOURCES
For the Year Ended December 31, 2010
(Dollars in thousands)

	<u>2010</u>
BUDGETARY RESOURCES (Notes 8, 9 & 12)	
Unobligated Balance, brought forward, January 1	\$ 9,190,828
Budget Authority:	
Spending Authority from Offsetting Collections Collected	11,628,115
Change in Receivables from Federal Sources	1,305
TOTAL BUDGETARY RESOURCES	<u><u>\$ 20,820,248</u></u>
 STATUS OF BUDGETARY RESOURCES	
Obligations Incurred: Reimbursable	\$ 10,390,054
Unobligated Balance: Exempt from Apportionment	10,430,194
TOTAL STATUS OF BUDGETARY RESOURCES	<u><u>\$ 20,820,248</u></u>
 CHANGE IN OBLIGATED BALANCES	
Obligated Balance, net:	
Unpaid Obligations, brought forward, January 1	\$ 62,321
Uncollected Customer Payments from Federal Sources, brought forward, January 1	(71,054)
Total, Unpaid Obligated Balance, brought forward, January 1	(8,733)
Obligations Incurred, Net	10,390,054
Gross Outlays	(10,448,096)
Change in Uncollected Customer Payments from Federal Sources	(1,305)
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	<u><u>\$ (68,080)</u></u>
 OBLIGATED BALANCE, NET, END OF PERIOD:	
Unpaid Obligations, end of period	\$ 4,279
Uncollected Customer Payments from Federal Sources, end of period	(72,359)
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	<u><u>\$ (68,080)</u></u>
 NET OUTLAYS	
Gross Outlays	\$ 10,448,096
Offsetting Collections	(11,628,115)
TOTAL NET OUTLAYS	<u><u>\$ (1,180,019)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the Federal Credit Union Act (FCU Act), 12 U.S.C. 1781 et seq., as amended by §136(b) of the Emergency Economic Stabilization Act of 2008, 12 U.S.C. 5241(b), and the Helping Families Save Their Homes Act of 2009, §204, P.L. No. 111-22, 123 Stat. 1632, 1648 (2009) (Helping Families Act). The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under the National Credit Union Administration (NCUA) Board of Directors (NCUA Board) for the purpose of insuring member share deposits in all Federal Credit Unions (FCUs) and in qualifying state credit unions requesting insurance.

The NCUA exercises direct supervisory authority over FCUs and coordinates required supervisory involvement with the state chartering authorities for state chartered credit unions insured by the NCUSIF. Insured credit unions are required to report certain financial and statistical information to NCUA on a quarterly basis, and are subject to periodic examination by the NCUA. Information derived through the supervision and examination process provides the NCUSIF with the ability to identify insured natural person credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF may be in the form of a waiver of statutory reserve requirements, a guarantee account, cash assistance, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF will liquidate the credit union, pay members' shares up to the maximum insured amount, and dispose of its assets.

Fiduciary Responsibilities – Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs), as authorized by the NCUA Board. These assets and liabilities are held for the exclusive benefit of non-federal parties and therefore are considered fiduciary in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 31, "Accounting for Fiduciary Activities." The beneficiaries of the fiduciary activities are shareholders and other claimants of the liquidated credit unions. Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet.

Sources of Funding – Deposits insured by NCUSIF are backed by the full faith and credit of the Federal Government. NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF one percent of its insured shares. The NCUA Board may also assess premiums to all federally insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF has \$6.0 billion in available borrowing authority, shared with the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), from the U.S. Treasury.

Under the FCU Act, the NCUSIF also has the ability to borrow from the NCUA Central Liquidity Facility (CLF). CLF had \$35.0 billion of full borrowing capacity under its note purchase agreement with the Federal Financing Bank (FFB), as of December 31, 2010.

Recent Legislation – The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), §335 P.L. 111-203, 124 Stat. 1544, amended the FCU Act to make permanent the standard maximum share insurance amount of \$250,000. Section 343 of the Dodd-Frank Act also amended the FCU Act to include full share insurance coverage, beyond the standard maximum share insurance amount (\$250,000), for the net amount that any member or depositor at an insured credit union maintains in a non interest-bearing transaction account, effective through December 31, 2012. A non interest-bearing transaction account is an account maintained at an insured credit union wherein interest is neither accrued nor paid, the account holder or depositor is permitted to make withdrawals for the purpose of making payments or transfers to others, and on which the insured credit union does not reserve the right to require advance notice of an intended withdrawal.

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the Federal Accounting Standards Advisory Board (FASAB) SFFAS. FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised September 29, 2010.

The NCUSIF historically prepared its financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. On September 16, 2010, the NCUA Board authorized the NCUSIF to adopt the FASAB standards for financial reporting, effective from January 1, 2010. Accordingly, this is the first year of presentation of the NCUSIF financial statements in accordance with FASAB.

Basis of Accounting

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

NCUA, including the NCUSIF, is exempt from requirements under the Federal Credit Reform Act of 1990 (2 U.S.C. §661e (a) (1)).

Use of Estimates

The preparation of financial statements in conformity with GAAP for the Federal Government requires management to make estimates and assumptions that affect the following:

- Reported amounts of assets and liabilities
- Disclosure of contingent assets and liabilities at the date of the financial statements
- The amounts of revenues and expenses reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include reserves for losses and contingencies related to Insurance and Guarantee Program Liabilities. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Net Position and Contributed Capital

Each insured credit union pays and maintains with the fund a capitalization deposit in the amount equal to one percent of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital. This amount is included in the NCUSIF Statement of Changes in Net Position.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the Federal Government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type. Cash balances in FBWT are invested in U.S. Treasury securities, as managed by the Bureau of the Public Debt.

Investments

Investment securities as of December 31, 2010, primarily consist of marketable U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held to maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, "Investments – Debt and Equity Securities." Consistent with SFFAS No. 34, "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board," NCUA applies FASB guidance because FASAB has not issued specific guidance for securities that are classified as available-for-sale.

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net income and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

NCUSIF reviews all U.S. Treasury securities that are in an unrealized loss position for Other-Than-Temporary Impairment (OTTI). NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is OTTI, the NCUSIF takes into consideration whether it has the intent to sell the security. The NCUSIF also considers available evidence to assess whether it more likely than not will be required to sell the debt security

before the recovery of its amortized cost basis. If the NCUSIF intends to sell, or more likely than not will be required to sell, the security before recovery of its amortized cost basis, OTTI shall be considered to have occurred.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method. The amortization and accretion of a premium and discount, respectively, are recorded in the following manner:

1. For premiums, the amortization of that premium is recorded to a valuation adjustment account (contra-asset), which is netted against the security's carrying amount to bring the recorded amount of the investment back down to par.
2. For discounts, the accretion of that discount is recorded directly to the security's carrying amount to bring the recorded amount of the investment back up to par.

Revenue Recognition

Exchange Revenue – Exchange revenues arise and are recognized when a Federal Government entity provides goods and services to the public or to another Federal Government entity for a price. Exchange revenue primarily consists of premium assessments, the purpose of which is to recover the losses of the credit union system.

Non-Exchange Revenue – Non-exchange revenues are inflows of resources that the Federal Government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to one percent of its insured shares. This amount is recognized as non-exchange revenue upon receipt. In accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from earnings and reported as a component of non-exchange revenue.

Accounts Receivable

The NCUSIF's accounts receivable has two components: Intragovernmental and Public. Intragovernmental accounts receivable represent receivables between the NCUSIF and another reporting entity within the Federal Government. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity.

Capitalization Deposits from Insured Credit Unions – Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to one percent of its insured shares. A receivable and associated non-exchange revenue is recognized upon invoicing.

Premium Assessments from Insured Credit Unions – The NCUA Board has the statutory authority according to the FCU Act Section 1782, Administration of the Insurance Fund, to assess the federally insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an

amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.3%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.2%, the NCUA Board shall establish and implement a restoration plan within 90 days, which meets the requirements and conditions that the NCUA Board determines appropriate. In order to meet the requirements established by the NCUA Board, the plan must provide that the equity ratio will meet or exceed the minimum amount specified before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the Board may determine to be necessary due to extraordinary circumstances).

Premium receivable refers to premium charge amounts that have been billed to federally insured credit unions, but have not been received as of the Balance Sheet date. As the premium assessments are collected, the portion billed on behalf of the TCCUSF is recorded as a payable to the TCCUSF.

Allowance for Doubtful Accounts – An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of credit losses in an existing receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all principal and interest contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest on investments that have been contractually earned but not yet received.

Other - Receivables from Asset Management Estates

Receivables from AMEs include claims to recover payments made by the NCUSIF to cover obligations to insured shareholders, and administrative expenses paid on behalf of AMEs. Any related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment from the AMEs. Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs.

The allowance for losses on receivables from AMEs are based on asset recovery rates, and come from several sources including:

- Actual or pending AME asset disposition data
- Asset valuation data based upon the performance, quality, and type of the assets in the portfolio
- Estimated liquidation costs based on information from similar recently failed credit unions
- Estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions.

Insurance and Guarantee Liabilities

In accordance with SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

- Unpaid claims incurred, resulting from insured events that have occurred as of the reporting date
- A contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur
- A future outflow or other sacrifice of resources that is probable.

The NCUSIF records a contingent liability for potential losses relating to member credit unions. Through NCUA’s supervision process, NCUA applies a supervisory rating system to assess each credit union’s relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the adequacy of Liquidity (CAMEL), applying a value ranging from “1” (strongest) to “5” (weakest). The contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates for all credit unions rated “2” through “5.” In addition, credit union specific analysis is performed on those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

Liabilities for loss contingencies also arise from claims, assessments, litigations, fines, penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2010, consisted of the following (in thousands):

Total Fund Balance with Treasury: Revolving Funds	<u>\$ 1,551</u>
Status of Fund Balance with Treasury:	
Unobligated Balance - Available	\$ 10,430,194
Obligated Balances Not Yet Disbursed	4,279
Non-Budgetary FBWT Accounts	<u>(10,432,922)</u>
Total	<u>\$ 1,551</u>

As a revolving fund, the FBWT is used for continuing business-like activities. The NCUSIF collects premiums and capitalization deposits which in turn are invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses, to include merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. FBWT contains monies available for future obligations as well as monies obligated for current activities. Non-budgetary FBWT accounts, which consist of investments, reduce the status of fund balance.

During 2010, the FBWT account was increased by maturing investments in U.S. Treasury securities and premium assessments. The FBWT account was decreased by purchases of U.S. Treasury securities and amounts expended for the purposes of the share insurance program. As of December 31, 2010, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 1783 (c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to marketable (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held to maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2010, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows:

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net (Par)	Net Unrealized Gain (Loss)	Carrying/ Fair Value
(Dollars in thousands)						
Available-for-Sale	\$ 10,127,327	\$ (135,992)	\$ 72,359	\$ 9,720,000	\$ 186,387	\$ 10,177,722
Held to Maturity	670,550	n/a	—	670,550	n/a	670,550
Total	<u>\$ 10,797,877</u>	<u>\$ (135,992)</u>	<u>\$ 72,359</u>	<u>\$ 10,390,550</u>	<u>\$ 186,387</u>	<u>\$ 10,848,272</u>

Maturities of U.S. Treasury securities as of December 31, 2010, were as follows:

(Dollars in thousands)	Fair value
Held to Maturity (Overnights)	\$ 670,550
Available-for-sale:	
Due prior to one year	1,627,609
Due after one year through five years	7,190,675
Due after five years through ten years	1,359,438
	<u>\$ 10,848,272</u>

There were no realized gains or losses in 2010.

The following table presents gross unrealized losses on investment securities, for which OTTI have not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2010.

	Duration of Losses - Less than 12 months		
	Unrealized losses	Unrealized gains	Fair value
(Dollars in thousands)			
Available-for-sale:			
U.S. Treasury securities	\$ (50,119)	\$ 236,506	\$ 10,177,722

The unrealized losses on investments in U.S. Treasury securities, included in the table above, were the result of lower interest rates at issuance compared to current higher interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. These securities are not considered OTTI because the NCUSIF does not intend to sell, and more likely than not, will not be required to sell before recovery of the cost basis.

4. ACCOUNTS RECEIVABLE

Intragovernmental – Accounts Receivable

Note Due From the NCUA Operating Fund – In 1992, the NCUSIF lent approximately \$42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately \$397 thousand for 2010. The note receivable balance as of December 31, 2010, was approximately \$17.1 million.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rate during 2010 was 2.24%. The interest rate as of December 31, 2010, was 2.14%.

As of December 31, 2010, the above note requires principal repayments as follows (in thousands):

<u>Years Ending December 31</u>	<u>Secured Term Note</u>
2011	\$ 1,341
2012	1,341
2013	1,341
2014	1,341
2015	1,341
Thereafter	10,392
Total	<u>\$ 17,097</u>

Public – Accounts Receivable

Capitalization Deposits from Insured Credit Unions – As of December 31, 2010, the capitalization deposits due from insured credit unions were \$183 thousand.

Premium Assessments from Insured Credit Unions – During 2010, premium assessments were invoiced to all federally insured credit unions. These assessments are allowed under the NCUA Board's statutory authority. As of December 31, 2010, assessments that have not been received from credit unions were \$2.0 million.

The allowance for doubtful accounts on the above public accounts receivable as of December 31, 2010, was zero.

5. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2010, the receivable from the AMEs was \$920.9 million and the related allowance for loss was \$777.6 million, for a net receivable from AMEs of \$143.3 million. The activity in the allowance for losses for the year ended was as follows:

	For the Year Ended December 31, 2010
(Dollars in thousands)	
Beginning balance	\$ 516,414
Increase in Allowance	221,099
Charges, Net	40,056
Ending balance	<u>\$ 777,569</u>

6. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies credit unions experiencing financial difficulty through NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these supervised credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. For general reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions. The total reserves for identified and anticipated losses resulting from supervised credit unions' failures were \$1.23 billion as of December 31, 2010.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing credit unions in order to facilitate mergers. The NCUSIF would be obligated upon nonperformance. No such guarantees were outstanding during 2010 or as of December 31, 2010.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party credit provider, such as a Corporate Credit Union or bank, if a particular credit union were to have a current or immediate liquidity concern and the credit provider refused to extend credit without a guarantee. The NCUSIF would thereby be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2010, were approximately \$75.5 million. There were no balances outstanding under these line-of-credit guarantees as of December 31, 2010. The carrying amount of the liability as of December 31, 2010, for the outstanding NCUSIF guarantees was \$1.4 million. The guarantees expire in 2011.

On rare occasions, the NCUSIF may provide indemnifications as part of a merger assistance agreement to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2010.

The activity in the Insurance and Guarantee Program Liabilities from supervised credit unions and AMEs for the year ended December 31, 2010, was as follows:

	For the Year Ended December 31, 2010
(Dollars in thousands)	
Beginning balance	\$ 715,846
Insurance Loss Expense	735,562
Insurance losses (claims) paid	(277,801)
Net Recovery/Claim on AME	<u>51,674</u>
Ending balance	<u><u>\$1,225,281</u></u>

The Insurance and Guarantee Program Liabilities at December 31, 2010, were comprised of the following:

- Specific reserves were \$173.5 million. Specific reserves are identified for those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.
- General reserves were \$1,051.8 million.

In addition to these recorded contingent liabilities, additional adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions, and accordingly, could differ significantly from these estimates.

7. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and expenses arise from transactions with other federal entities. Public revenue and expenses arise from transactions with domestic and foreign persons and organizations outside of the Federal Government.

<u>Intragovernmental Costs and Exchange Revenue</u>	<u>For the Year Ended December 31, 2010</u>
(Dollars in thousands)	
Intragovernmental Costs	\$ 162,410
Public Costs	<u>738,982</u>
Total	<u><u>901,392</u></u>
Intragovernmental Exchange Revenue	(397)
Public Exchange Revenue	<u>(978,778)</u>
Total	<u><u>(979,175)</u></u>
Net Cost/(Income)	\$ (77,783)

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 57.2% to NCUSIF for 2010. The cost of the services allocated to NCUSIF, which totaled approximately \$113.6 million for 2010, is reflected as an expense in the Statement of Net Cost. These transactions are settled monthly. As of December 31, 2010, amounts due to the NCUA Operating Fund, for allocated administrative expenses were \$2.9 million. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund.

Administrative Services Reimbursed to the National Credit Union Administration Operating Fund	For the Year Ended December 31, 2010
(Dollars in thousands)	
Employee Salaries	\$ 64,218
Employee Benefits	17,931
Employee Travel	12,912
Contracted Services	8,294
Administrative Costs	7,855
Rent, Communications, and Utilities	<u>2,374</u>
Total Services Provided by NCUA Operating Fund	<u><u>\$ 113,584</u></u>

8. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares \$6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSE. In addition, per the FCU Act, the NCUSIF is authorized to borrow from the CLF up to the amount of CLF's unused borrowing authority. CLF had \$35.0 billion of full borrowing capacity under its note purchase agreement with the FFB, at year-end. At December 31, 2010, the NCUSIF had \$41.0 billion in available borrowing authority.

9. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2010. Activity impacting budget totals of the overall Federal Government budget is recorded in NCUSIF's Statement of Budgetary Resources budgetary accounts. As of December 31, 2010, NCUSIF's resources in budgetary accounts were \$20.8 billion and undelivered orders were \$795 thousand. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities, because they are contingent liabilities and do not require budgetary resources. All obligations incurred by NCUSIF are reimbursable. NCUSIF is exempt from OMB apportionment control.

Budgetary resources listed on NCUSIF's statements and the budgetary resources found in the budget of the Federal Government differ because NCUSIF's statements are prepared as of December 31, rather than as of September 30, the Federal Government's fiscal year end.

10. CONTRIBUTED CAPITAL

The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling one percent of the credit union's insured shares. The amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50.0 million; and (ii) semiannually, in the case of an insured credit union with total assets of \$50.0 million or more. The annual and semiannual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The one percent contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA.

Beginning in 2000, the CUMAA mandated that dividends to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

In December 2007, the NCUA Board set the normal operating level at 1.30%. The calculated equity ratio as of December 31, 2010, was 1.28%, based on total insured shares as of December 31, 2010, of \$757.9 billion. Total contributed capital as of December 31, 2010, was \$7.5 billion.

The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

11. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, "Accounting for Fiduciary Activities."

The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

Schedule of Fiduciary Activity	For the Year Ended December 31, 2010
(Dollars in thousands)	
Fiduciary Net Liabilities, beginning of year	\$ (516,414)
Interest on Loans	8,545
Other Fiduciary Revenues	1,835
Professional & Outside Services Expenses	(7,906)
Compensation and Benefits	(2,989)
Other Expenses	(3,099)
Net Gain/(Loss) on Loans	(281,294)
Net Gain/(Loss) on Real Estate Owned	3,574
Other, Net Gain/(Loss)	16,484
Decrease / (Increase) in Fiduciary Net Liabilities	(264,850)
Fiduciary Net Liabilities, end of year	\$ (781,264)

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets, as well as the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities.

Schedule of Fiduciary Net Assets/ Liabilities	As of December 31, 2010
(Dollars in thousands)	
Fiduciary Assets	
Loans	\$ 120,271
Real Estate Owned	36,798
Other Fiduciary Assets	7,720
Total Fiduciary Assets	164,789
Fiduciary Liabilities	
Insured Shares	2,510
Accrued Liquidation Expenses	5,957
Unsecured Claims	12,851
Uninsured Shares	3,887
Due to NCUSIF	920,848
Total Fiduciary Liabilities	946,053
Total Fiduciary Net Assets/(Liabilities)	\$ (781,264)

12. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of December 31, 2010, the Reconciliation of Net Cost of Operations to Budget consisted of the following:

<u>Reconciliation of Net Cost of Operations to Budget</u>	<u>As of December 31, 2010</u>
(Dollars in thousands)	
Resources Used to Finance Activities: Budgetary Resources Obligated	
Budgetary Obligations Incurred	\$ 10,390,054
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	<u>(11,629,420)</u>
Net Obligations	(1,239,366)
Other Resources:	
Change in Premiums Receivable from Insured Credit Unions	10,865
Change in Receivables from Asset Management Estates	<u>61,161</u>
Total Resources Used to Finance Activities	<u>(1,167,340)</u>
Resources Used to Fund Items Not Part of the Net Cost of Operations:	
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(32,531)
Change in Uncollected Customer Payments	(1,305)
Change in Capital Deposit Receivable from Insured Credit Unions	17,628
Change in Contributed Capital	418,020
Capital Deposits in Transit at Beginning of Year	(17,570)
Resources that Finance the Acquisition of Assets	(5,358)
Change in Accounts Receivable from Operating Fund	1,341
Change in Liability for Advances and Prepayments	(2,257)
Resources That Fund Expenses Recognized in Prior Periods	<u>(23,993)</u>
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	<u>353,975</u>
Resources Used to Finance the Net Cost of Operations	<u>(813,365)</u>
Components of Net Cost of Operations that do not Require or Generate Resources During the Reporting Period:	
Depreciation Expense	20
Insurance Loss Expense	<u>735,562</u>
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	735,582
Net Cost of (Income from) Operations	\$ (77,783)

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the balance sheet date through May 11, 2011, which is the date the financial statements were available to be issued. Management determined that there were no other items to disclose as of December 31, 2010.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Risk Assumed Information

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. The amount of reserves recognized for credit unions at risk of failure was \$1.23 billion at December 31, 2010, due to the slow pace of economic recovery and concerns with real estate values, a negative trend in credit union CAMEL codes, the potential for a larger number of failures, and concern with the cost of failures. To maintain the fund's financial health, the NCUSIF assessed a premium of \$930.0 million in 2010, to restore the NCUSIF's equity ratio to 1.3% of insured shares as of June 30, 2010.



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, National Credit Union Administration and
The Board of Directors, National Credit Union Administration:

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2010 and the related statements of net cost, and changes in net position, and statement of budgetary resources (hereinafter referred to as "the financial statements") for the year then ended, and have issued our report thereon dated May 11, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the NCUSIF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the NCUSIF's internal control over financial reporting by obtaining an understanding of the NCUSIF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Exhibit I presents the status of the prior year significant deficiency.



National Credit Union Share Insurance Fund

May 11, 2011

Page 2 of 2

This report is intended solely for the information and use of the addressees, NCUSIF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 11 , 2011

STATUS OF PRIOR YEAR FINDINGS**Exhibit I**

2009 Finding	Deficiency Type	2010 Status
Improvements Needed in Financial Accounting and Reporting Process	Significant Deficiency	Closed



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Inspector General, National Credit Union Administration and
The Board of Directors, National Credit Union Administration:

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2010, and the related statements of net cost, and changes in net position, and statement of budgetary resources (hereinafter referred to as "financial statements") for the year then ended, and have issued our report thereon dated May 11, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the NCUSIF is responsible for complying with laws, regulations, and contracts applicable to the NCUSIF. As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free of material misstatement, we performed tests of the NCUSIF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the NCUSIF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our other tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, NCUSIF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 11, 2011



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2010 and 2009 and the related statements of revenues, expenses, and changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2010 and 2009 and its statement of operations, changes in fund balance, and statements of cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 15, 2011, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 15, 2011

BALANCE SHEETS
As of December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS (Note 4)	\$32,645	\$24,321
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 8)	2,857	2,258
EMPLOYEE ADVANCES	50	166
OTHER ACCOUNTS RECEIVABLE (Note 8)	349	274
PREPAID EXPENSES AND OTHER ASSETS	1,371	1,010
ASSETS HELD FOR SALE (Note 7)	696	495
FIXED ASSETS — Net of accumulated depreciation of \$23,330 and \$22,282 as of December 31, 2010 and 2009, respectively (Note 5)	31,673	30,203
INTANGIBLE ASSETS — Net of accumulated amortization of \$6,441 and \$4,079 as of December 31, 2010 and 2009, respectively (Note 6)	<u>5,945</u>	<u>7,300</u>
TOTAL	<u>\$75,586</u>	<u>\$66,027</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$5,043	\$3,036
Obligations under capital leases (Note 9)	24	41
Accrued wages and benefits	8,581	7,109
Accrued annual leave	11,401	9,922
Accrued employee travel	532	179
Notes payable to National Credit Union Share Insurance Fund (Note 8)	<u>17,097</u>	<u>18,438</u>
Total liabilities	42,678	38,725
COMMITMENTS AND CONTINGENCIES (Notes 8, 13 & 14)		
FUND BALANCE (Note 12)	<u>32,908</u>	<u>27,302</u>
TOTAL	<u>\$75,586</u>	<u>\$66,027</u>

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
REVENUES:		
Operating fees	\$86,754	\$81,679
Interest	63	41
Other	<u>1,234</u>	<u>544</u>
Total revenues	88,051	82,264
EXPENSES, NET (Note 8):		
Employee wages and benefits	59,379	58,469
Travel	9,163	8,185
Rent, communications, and utilities	1,773	1,935
Contracted services	6,194	4,119
Other	<u>5,936</u>	<u>4,788</u>
Total expenses	<u>82,445</u>	<u>77,496</u>
EXCESS OF REVENUES OVER EXPENSES	5,606	4,768
FUND BALANCE—Beginning of year	<u>27,302</u>	<u>22,534</u>
FUND BALANCE—End of year	<u><u>\$32,908</u></u>	<u><u>\$27,302</u></u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 5,606	\$ 4,768
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	5,154	2,711
Provision for loss on disposal of employee residences held for sale	244	330
Loss on fixed asset retirements	380	—
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(599)	(2,089)
Employee advances	116	(75)
Other accounts receivable	(75)	9
Prepaid expenses and other assets	(361)	2,668
(Decrease) increase in liabilities:		
Accounts payable	2,007	(1,027)
Accrued wages and benefits	1,472	2,991
Accrued annual leave	1,479	1,015
Accrued employee travel	353	173
Net cash provided by operating activities	<u>15,776</u>	<u>11,474</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(5,649)	(6,838)
Purchases of employee residences held for sale	(1,386)	(1,258)
Proceeds from sale of employee residences held for sale	941	951
Net cash used in investing activities	<u>(6,094)</u>	<u>(7,145)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(17)	(259)
Net cash used in financing activities	<u>(1,358)</u>	<u>(1,600)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,324	2,729
CASH AND CASH EQUIVALENTS—Beginning of year	24,321	21,592
CASH AND CASH EQUIVALENTS—End of year	<u>\$32,645</u>	<u>\$24,321</u>
CASH PAYMENTS FOR INTEREST	\$ 397	\$ 509

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2010 and 2009

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the “Fund”) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal Credit Union System.

A significant majority of the Fund’s revenue is comprised of operating fees paid by Federal credit unions. Each Federal credit union is required to pay this fee based on its prior year asset balances and rates set by the NCUA Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Fund has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The Fund maintains its accounting records in accordance with the accrual basis of accounting. As such, the Fund recognizes income when earned and expenses when incurred. In addition, the Fund records investment transactions when they are executed and recognizes interest on investments when it is earned.

Related Parties – The Fund exists within NCUA and is one of five funds managed by the NCUA Board. The other funds managed by the Board, deemed related parties, are:

- a) The National Credit Union Share Insurance Fund (NCUSIF)
- b) The National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF)
- c) The National Credit Union Administration Central Liquidity Facility (CLF)
- d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports related parties by providing office space, information technology services, and supplies, as well as paying employees’ salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF and CLF based on allocation formulas, as described in Note 8.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities

with both principal and interest guaranteed by the United States Government. All investments in 2010 and 2009 were cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, computer software, and leasehold improvements are recorded at cost. Computer software includes the cost of labor incurred by both external and internal programmers, and other personnel in the development of the software. Capital leases are recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the building and three to ten years for the furniture, equipment, computer software, and leasehold improvements.

Long-lived Assets/Impairments – Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360-10-35, *Property, Plant, and Equipment*, requirements. Subsequent adjustment to individual asset values are made to correspond with any identified changes in useful lives.

Assets Held for Sale – The Fund holds certain real estate held for sale. Such held for sale assets are ready for sale in their present condition. Real estate held for sale is recorded at the lower of cost or fair value less cost to sell. If an asset's fair value less cost to sell—based on a review of available financial information including but not limited to appraisals, markets analyses, etc.—is less than its carrying amount, the carrying value of the asset is adjusted.

Gains on disposition of real estate are recognized upon sale of the underlying asset. The Fund evaluates each real estate transaction to determine if it qualifies for gain recognition under the full accrual method. If the transaction does not meet the criteria for the full accrual method, the appropriate deferral method is used.

Accounts Receivable – Receivables include employee travel advances, and amounts due from the NCUSIF and CLF. Amounts are stated at face value, as there have been no historical losses and there are no anticipated losses.

Accounts Payable – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). This act provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease.

Operating Fees – Each federally chartered credit union is assessed an annual fee based on their assets as of the preceding 31st day of December. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the calendar year.

Revenue Recognition – Interest revenue and other revenue relating to Freedom of Information Act (FOIA) fees, sales of publications, parking income, and rental income is recognized when earned.

Income Taxes – The Fund is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. Certain office space for which NCUA is a lessee is subject to escalations in rent, as described in Note 9.

Fair Value of Financial Instruments – The following method and assumption was used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivables from related parties, employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate their respective fair values.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain intangible asset values, and if there is any determination of a long-lived asset impairment, the related measurement of the impairment charge.

Reclassifications – Certain amounts in the financial statements have been reclassified to conform to the current year presentation.

Advertising Costs – Per FASB ASC 720-35-50, *Other Expenses - Advertising Costs* consist primarily of radio and Internet advertisements. Advertising costs are expensed as incurred. The Fund enters into certain contracts for the purpose of advertising. In 2010 and 2009, advertising expenses amounted to approximately \$1,434,000 and \$0, respectively.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In January 2010, FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosure (Topic 820): Improving Disclosures about Fair Value Measurements* related to improving disclosures about fair value measurements. The update requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of level 1 and level 2 fair value measurements, and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of level 3 fair value measurements.

The accounting standard update is effective for reporting periods beginning after December 15, 2009, except for level 3 reconciliation disclosures, which are effective for periods beginning after December 15, 2010. Adoption of the accounting standard update as it relates to level 1 and level 2 fair value disclosures impacted the Fund's financial statements. Level 3 fair value adjustments occur for assets held for sale, which represents homes from relocated employees. The Fund does not expect the adoption of the accounting standard update related to the level 3 reconciliation disclosures to have a material impact on its financial statements.

4. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2010 and 2009 are as follows (in thousands):

	2010	2009
Deposit with U.S. Treasury	\$ 104	\$ 513
U.S. Treasury Overnight Investments	<u>32,541</u>	<u>23,808</u>
Total	<u>\$ 32,645</u>	<u>\$ 24,321</u>

As a revolving fund within the U.S. Treasury, the Operating Fund (OF) maintains a Fund Balance with Treasury (FBWT) and does not hold cash outside of Treasury.

5. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Office building and land	\$ 45,039	\$ 43,595
Furniture and equipment	8,996	8,698
Equipment under capital leases	<u>141</u>	<u>152</u>
Total	54,176	52,445
Less accumulated depreciation	(23,330)	(22,282)
Assets under construction	<u>827</u>	<u>40</u>
Fixed assets — net	<u>\$ 31,673</u>	<u>\$ 30,203</u>

Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$2,076,000 and \$2,051,000, respectively.

Assets under construction primarily represent costs to improvements to the King Street NCUA Headquarters office space.

6. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Internal-Use software	\$ 10,276	\$ 6,508
Less accumulated amortization	<u>(6,441)</u>	<u>(4,079)</u>
Total	3,835	2,429
Internal-Use software-in development	<u>2,110</u>	<u>4,871</u>
Intangible assets — net	<u>\$ 5,945</u>	<u>\$ 7,300</u>

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2010 and 2009 totaled \$3,078,000 and \$660,000, respectively.

Internal-use software that is in development represents costs incurred from the customization of software purchased from external vendors for internal use. This includes the Federal financial accounting system that was partially implemented in January 2010, the Management Allocation Resource System examination time budgeting system to be implemented in the near future, and the online 5300 system to be implemented during 2011.

7. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Currently, the Fund owns three homes. Ongoing costs to maintain properties are expensed as incurred. The balance of real estate available for sale as of December 31, 2010 and 2009 was \$696,000 and \$495,000, respectively.

8. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 100% of the expenses of the Office of Corporate Credit Unions to the extent that it exceeds the actual operating fees paid by Federal corporate credit unions, plus 57.2% of all other expenses to NCUSIF for 2010 and 53.8% for 2009. The cost of the services allocated to NCUSIF, which totaled approximately \$113,584,000 and \$90,244,000 for 2010 and 2009, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements. These transactions are settled monthly.

As of December 31, 2010 and 2009, amounts due from NCUSIF, under this allocation method, totaled \$2,857,000 and \$2,258,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to \$41,975,000 in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were \$397,000 and \$509,000 for 2010 and 2009, respectively. The notes payable balances as of December 31, 2010 and 2009 were approximately \$17,097,000 and \$18,438,000, respectively. The current portion of the long term debt is \$1,341,000 for both December 31, 2010 and 2009.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2010 and 2009 were 2.24% and 2.56%, respectively. The interest rates as of December 31, 2010 and 2009 were 2.14% and 2.06 %, respectively.

The secured term note requires principal repayments as of December 31, 2010 as follows (in thousands):

Years Ending December 31	Secured Term Note
2011	\$ 1,341
2012	1,341
2013	1,341
2014	1,341
2015	1,341
Thereafter	<u>10,392</u>
Total	<u><u>\$17,097</u></u>

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF's employee salaries and related benefits, as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were approximately \$483,000 and \$334,000 for December 31, 2010 and 2009, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately \$183,000 and \$145,000 of amounts due from the CLF as of December 31, 2010 and 2009, respectively.

(c) Support of CDRLF

The Fund supports the administration of programs under CDRLF by paying related personnel and other associated costs. The estimation of administrative costs includes salaries, employee benefits, travel, training, telephone, supplies, printing, and postage.

For the years ending December 31, 2010 and 2009, administrative support to CDRLF is estimated at (in thousands):

	2010	2009
Employee	\$ 387	\$ 242
Other	<u>16</u>	<u>12</u>
Total	<u>\$ 403</u>	<u>\$ 254</u>

(d) Federal Financial Institutions Examination Council (FFIEC)

NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member. FFIEC was established on March 10, 1979 as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2010 and December 31, 2009, FFIEC assessments totaled \$873,000 and \$760,000, respectively. FFIEC's 2011 budgeted assessments to NCUA total \$852,000.

(e) Support of TCCUSF

The Fund supports the administration of programs under TCCUSF by paying related personnel and other associated costs. The estimation of administrative costs includes salaries, employee benefits, travel, training, telephone, supplies, printing, and postage.

For the years ending December 31, 2010 and 2009, administrative support to TCCUSF is estimated at \$5,858,000 and \$114,000 respectively.

(f) Real Estate Available for Sale

The Fund purchases homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period, as mentioned in Note 7.

9. LEASE COMMITMENTS

Description of Leasing Agreements – The Fund has entered into a number of lease agreements with vendors for the rental of office space and office equipment, which includes laptops, printers, monitors, and copiers.

Operating Leases – The Fund leases certain of NCUA's office space under lease agreements that run through 2015. Office rental charges amounted to approximately \$566,000 and \$1,089,000, of which approximately \$324,000 and \$586,000 were reimbursed by NCUSIF for 2010 and 2009, respectively. In addition, the Fund leases laptop computers and other office equipment under operating leases with lease terms that run through 2012.

Capital Leases – The Fund leases copier equipment under lease agreements that run through 2012.

The future minimum lease payments to be paid over the next five years as of December 31, 2010, before reimbursements, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2011	\$ 1,921	\$ 18
2012	1,348	6
2013	805	-
2014	448	-
2015	379	-
Thereafter	-	-
Total	<u>\$ 4,901</u>	<u>\$ 24</u>

Based on the allocation factor approved by the NCUA Board for 2010, NCUSIF is expected to reimburse the Fund for approximately 57.2% of the future operating lease payments.

As a lessor, the Fund holds operating lease agreements with three tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry five year terms with escalating rent payments. The last of these leases is set to expire in 2015.

The future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2010 are as follows (amounts in thousands):

Years Ending December 31	Rent Payments
2011	\$ 549
2012	541
2013	553
2014	495
2015	72
Thereafter	-
Total	<u>\$ 2,210</u>

10. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund.

FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Savings Plan, employees may also elect additional contributions up to \$16,500 in 2010, and the Fund will match up to 5% of the employee's gross pay. In 2010 and 2009, the Fund's contributions to the plans were approximately \$15,775,000 and \$14,021,000, respectively, of which approximately \$9,024,000 and \$7,543,000, respectively, was allocated to NCUSIF.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans, and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

11. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 825, *Financial Instruments and FASB ASC 820 Fair Value Measurements and Disclosures*. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2010 and 2009. The impairment charges are recorded within the excess of revenues over expenses and represent non-recurring fair value measures.

	2010			2009		
	Amortized Cost Basis	Aggregate Fair Value	Total Impairment Charges for 2010	Amortized Cost Basis	Aggregate Fair Value	Total Impairment Charges for 2009
Assets held for sale	\$ 696	\$ 696	\$ 164	\$ 495	\$ 495	\$ 55

Assets held for sale – Assets held for sale represents residences from relocating employees, and is presented at fair value. The fair value measurement recorded during the period includes pending purchase contracts, the lower of list prices or appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates an estimated 10 percent reduction in the fair value to recognize realtor, closing, and other costs. The Fund believes that these measurements fairly reflect the most current valuation of the assets. Accordingly, the Fund uses level 3 inputs to measure the fair value of these investments. Unrealized losses relating to these assets are reported in the income statement.

The carrying values approximate the fair values of certain financial instruments as of December 31, 2010 and 2009 were as follows (in thousands):

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$32,645	\$32,645	\$24,321	\$24,321
Due from NCUSIF	2,857	2,857	2,258	2,258
Employee advances	50	50	166	166
Obligation under capital lease	24	24	41	41
Notes payable to NCUSIF	17,097	17,097	18,438	18,438

Cash and Cash Equivalents – The carrying amounts for cash and cash equivalents financial instruments approximates fair value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value.

Employee Advances – The carrying amounts for receivables from employees financial instruments approximate fair value.

Obligation under Capital Lease – The carrying amounts for the remaining obligations owed on capital leases financial instruments approximate fair value.

Notes Payable to NCUSIF – The carrying amounts for notes payable to NCUSIF financial instruments approximates fair value due to its variable rate nature.

12. FUND BALANCE AND RETAINED EARNINGS APPROPRIATION

From 2006 to 2009, the Fund established an appropriation of the fund balance in an effort to more transparently disclose and communicate to stakeholders earnings which were necessary for major projects that could not be accrued or would not warrant inclusion in the annual operating expense budget. The initial appropriation of \$1,000,000 was for repairs and maintenance on the King Street NCUA Headquarters office space. The appropriation was no longer considered necessary in 2010, as building projects have become more frequently budgeted on an annual basis.

At December 31, 2010 and 2009, retained earnings balances are as follows (in thousands):

	2010	2009
Fund balance (excluding retained earnings appropriation)	\$ 32,908	\$ 26,302
Retained earnings appropriation	<u>-</u>	<u>1,000</u>
Total fund balance	<u>\$ 32,908</u>	<u>\$ 27,302</u>

13. CONTINGENCIES

The Fund is currently a party to a number of disputes that involve or may involve litigation. In the opinion of Fund management, the ultimate liability with respect to other disputes, if any, will not be material to the Fund's financial position.

14. COLLECTIVE BARGAINING AGREEMENT

NCUA has a collective bargaining agreement (CBA) with the National Treasury Employees Union (NTEU) that became effective on January 11, 2008. NTEU is the exclusive representative of approximately 80% of NCUA employees. This agreement will remain in effect for a period of three years from its effective date and will be automatically renewable for additional one year periods until otherwise re-negotiated by the parties. NTEU has requested to renegotiate the CBA and the negotiations are ongoing.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 15, 2011, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2010 and 2009 and the related statements of revenues, expenses, and changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 15, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Fund is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in Exhibit I that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



National Credit Union Administration Operating Fund
February 15, 2011
Page 2 of 2

The Fund's response to the findings identified in our audit are presented in Exhibit II. We did not audit the Fund's response and, accordingly, we express no opinion on it.

Exhibit III presents the status of the prior year material weakness.

This report is intended solely for the information and use of the addressees, the Fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 15, 2011

Introduction

This exhibit describes the significant deficiency noted during our audit as of and for the year ended December 31, 2010, and our recommendations thereon. The National Credit Union Administration Operating Fund (the Fund) management's response to this finding is presented in Exhibit II.

Improvements Needed in Financial Accounting and Reporting Process

The Fund needs improvement in reporting the activity of property, plant and equipment and intangible assets in the financial statements, enhancing the quality of certain supporting documentation thereby increasing the efficiency of the financial statements close process, and better segregating the preparation and review of manual journal entries. Specifically, we noted the following.

- i. Difficulties encountered by management in providing timely support for key reported items in the financial statements. Management was unable to provide documentation related to PP&E, including a roll-forward for the PP&E balances, reconciliations of the PP&E module/subledger to the general ledger, and detailed account listings to support the amounts and disclosures in the financial statements in a timely manner.
- ii. A lack of efficiency in the operation of management's record keeping and financial close procedures. Specifically, we observed that time was diverted from the financial close and review processes to research and analyze certain transactions from earlier in the year. Upon inspection, the documentation for some transactions, (for example non-routine transaction related to prior post-closing adjustments, etc.) was insufficiently detailed to be understood without special investigation and explanation.
- iii. A lack of documentation of control activities. The Fund did not have procedures in place for the first three quarters of 2010 that required the review and approval of manual journal entries and the related supporting documentation. Specifically, the sample journal entries that we tested did not all have evidence that the journal entries were reviewed and approved by someone other than the preparer. During the fourth quarter of 2010, the Fund implemented a manual procedure in which journal entries were reviewed and approved by someone other than the preparer. The sample of journal entries we reviewed in the fourth quarter contained evidence of review and approval by someone other than the preparer. However, the Fund did not have a procedure in place to confirm journal entries were made as approved.

We believe that the incomplete documentation for certain non-routine activity and lack of familiarity with the new general ledger system contributed, in part, to management's inability to efficiently prepare the financial statements and relating supporting documentation in a timeframe that would be expected to consistently enable robust review.

The FMFIA requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the GAO Standards for Internal Control in the Federal Government (GAO Standards).

These standards define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. GAO Standards state that internal controls should generally be designed to assure that on-going monitoring occurs in the course of normal operations. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure actions address risks. The activities include reviews by management at the functional or activity level, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control.

Recommendations

We recommend that the NCUA strengthen its accounting policies, procedures and controls as follows:

- Regularly reassess staff workload and key financial reporting tasks to especially ensure qualified personnel are available to efficiently and effectively perform the year-end closing of the books and preparation of financial statements.
- Expand the level of documentation in the books and records in relation to non-routine activities and transactions so that such information is readily available for inspection. Such documentation should be prepared on a real-time basis so as not to unduly interfere with the annual closing activities and otherwise limit the time available for a robust review process.
- In lieu of wholly-reliance on manual controls, consider the cost/benefit of potential automated procedures and systems-based controls to enforce segregation of duties and enable documented accountability for supervisory reviews for manual journal entries.



NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

MANAGEMENT RESPONSE TO AUDIT FINDINGS

Findings: Improvements Needed in Financial Accounting and Reporting Process

At the conclusion of the prior year financial statement audit, the National Credit Union Administration (NCUA) made a strong commitment to remediation to ensure the material weakness identified in 2009 would not be repeated in 2010. The efforts of the NCUA in designing and implementing an effective remediation plan are evidenced by the results of the 2010 audit. The Operating Fund received an unqualified opinion with no material weaknesses.

Several of the issues noted in the prior year audit have been corrected. Deficiencies were identified during the 2010 financial statement audit relating to the following:

1. Timely support for PP&E
2. Efficiency of operations relating to recordkeeping and the financial close process
3. Adequate documentation of control activities

As demonstrated in the prior year, the NCUA is committed to audit remediation and will implement corrective actions to address these findings taking into consideration the agency's resources and priorities.

1. Timely support for PP&E:

The audit finding discussed the inability of management to readily provide documentation related to PP&E. All requested documentation was provided to the auditors. We recognize the need to produce this documentation more timely. NCUA will review current processes in place for PP&E related activities and develop a more structured policy to include quarterly roll-forwards and enhanced documentary evidence of monthly reconciliations that currently take place.

2. Efficiency of operations relating to recordkeeping and the financial close process:

In 2010, NCUA implemented a new United States Standard General Ledger compliant financial management system. The nuances of converting to the new system and the need to devote staff resources simultaneously to both operational accounting duties such as the general ledger and audit support contributed to the auditor's finding. With an additional year of experience using the new accounting system combined with dozens of newly implemented internal control processes and documentation requirements, along with newly created custom reports, NCUA believes substantial improvement related to this

finding will take place in the coming year. NCUA acknowledges that attention is necessary in the near term while the financial system conversion is completed. In response to the audit finding, NCUA will look to implement new procedures and consider additional resources and custom reports to allow the full capacity of the new accounting system to be utilized, thereby increasing efficiency.

3. Adequate documentation of accounting policies and procedures:

As the finding recognized, NCUA implemented a manual internal control review procedure during the last quarter of the year whereby journal entries were reviewed and approved by someone other than the preparer prior to entry into the system. While the manual approval process is designed adequately, NCUA management will continue to assess current policies and procedures for areas of improvement and efficiencies. Specifically, NCUA will consider adding additional resources, utilizing additional services offered by the system provider, and implementing periodic procedures to ensure manual transactions are entered accurately and according to policy.

STATUS OF PRIOR YEAR FINDINGS**Exhibit III**

2009 Finding	Deficiency Type	2010 Status
Improvements Needed in Financial Accounting and Reporting Process	Material Weakness	Partially Remediated – Significant Deficiency



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund balance, and statements of cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 15, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Fund is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Fund. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our other tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addresses, the Fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 15, 2011



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2010 and 2009 and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the CLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 10, 2011, on our consideration of the CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 10, 2011

BALANCE SHEETS
As of December 31, 2010 and 2009
(Dollars in thousands, except share data)

	2010	2009
ASSETS		
Cash and cash equivalents (Notes 3 and 5)	\$ 1,905	\$ 5,900
Investments held to maturity (Net of \$4,306 and (\$2,169) unamortized premium/(discount), fair value of \$1,982,533 and \$1,832,955 as of 2010 and 2009, respectively) (Notes 4 and 5)	1,977,556	1,828,831
Loans to members (Notes 5 and 6)	-	8,312,751
Loan to related party (notes 5 and 11)	-	10,000,000
Accrued interest receivable	500	23,591
TOTAL	\$ 1,979,961	\$ 20,171,073
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	\$ 239	\$ 171
Dividends payable	1,479	1,375
Federal Financing Bank notes payable (Notes 5 and 10)	-	18,312,751
Accrued interest payable	-	23,561
Member deposits (Notes 5 and 8)	329	363
Total Liabilities	2,047	18,338,221
MEMBERS' EQUITY		
Capital stock – required (\$50 per share par value authorized: 78,236,318 and 72,749,116 shares; issued and outstanding: 39,118,159 and 36,374,558 shares as of 2010 and 2009, respectively) (Note 7)	1,955,908	1,818,728
Retained earnings	22,006	14,124
Total Members' Equity	1,977,914	1,832,852
TOTAL	\$ 1,979,961	\$ 20,171,073

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
REVENUE:		
Investment income	\$ 14,135	\$ 21,468
Interest on loans	45,610	85,649
Gain on sale of investments	<u>-</u>	<u>43</u>
Total revenue	<u>59,745</u>	<u>107,160</u>
EXPENSES: (Note 11)		
Personnel services	344	205
Personnel benefits	83	48
Other general and administrative expenses	<u>56</u>	<u>81</u>
Total operating expenses	483	334
Interest – federal financing bank notes payable (note 10)	45,610	85,649
Interest – liquidity reserve	<u>2</u>	<u>7</u>
Total expenses	<u>46,095</u>	<u>85,990</u>
NET INCOME	<u>\$ 13,650</u>	<u>\$ 21,170</u>

See accompanying notes to financial statements.

STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands, except share data)

	Capital Stock		Shareholder Loan	Retained Earnings	Total
	Shares	Amount			
BALANCE – December 31, 2008	34,154,171	\$ 1,707,710	\$ (1,719,574)	\$ 11,408	\$ (456)
Issuance of required capital stock	2,221,840	111,092			111,092
Redemption of required capital stock	(1,453)	(74)			(74)
Repayment of shareholder loan (Note 7)			1,719,574		1,719,574
Dividends declared (\$0.51/share) (Notes 7 and 8)				(18,454)	(18,454)
Net Income				21,170	21,170
BALANCE – December 31, 2009	36,374,558	1,818,728	-	14,124	1,832,852
Issuance of required capital stock	2,784,248	139,212			139,212
Redemption of required capital stock	(40,647)	(2,032)			(2,032)
Dividends declared (\$0.15/share) (Notes 7 and 8)				(5,768)	(5,768)
Net Income				13,650	13,650
BALANCE – December 31, 2010	<u>39,118,159</u>	<u>\$ 1,955,908</u>	<u>\$ -</u>	<u>\$ 22,006</u>	<u>\$ 1,977,914</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 13,650	\$ 21,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease/ (Increase) in accrued interest receivable	23,091	(8,922)
(Decrease)/Increase in operating liabilities	<u>(23,492)</u>	<u>21,445</u>
Net cash provided by operating activities	<u>13,249</u>	<u>33,693</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,222,725)	(1,828,831)
Proceeds from maturing investments	1,074,000	-
Loan principal repayments/(disbursements) - net	<u>18,312,751</u>	<u>(16,727,273)</u>
Net cash provided by/(used in) Investing Activities	<u>18,164,026</u>	<u>(18,556,104)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of required capital stock	139,212	111,092
Dividends paid (notes 7 and 8)	(5,664)	(29,448)
Redemption of required capital stock	(2,032)	(74)
Withdrawal of member deposits	(901)	(719)
Repayment of shareholder loan	-	1,719,574
Additions to member deposits	866	596
(Repayments of)/proceeds from FFB borrowings - net	<u>(18,312,751)</u>	<u>16,727,273</u>
Net cash provided by/(used in) Financing Activities	<u>(18,181,270)</u>	<u>18,528,294</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,995)	5,883
CASH AND CASH EQUIVALENTS—Beginning of year	<u>5,900</u>	<u>17</u>
CASH AND CASH EQUIVALENTS –End of year	<u>\$ 1,905</u>	<u>\$ 5,900</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION – Cash paid during the year for interest	<u>\$ 69,173</u>	<u>\$ 64,250</u>

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2010 and 2009

(Dollars in thousands except share data)

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the "Act"). CLF is designated as a mixed-ownership Government corporation under the Government Corporation Control Act. CLF exists within NCUA and is managed by the NCUA Board. CLF became operational on October 1, 1979.

CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. CLF accomplishes its purpose by borrowing funds, subject to certain statutory limitations, when a liquidity need arises.

CLF is subject to various Federal laws and regulations. CLF's operating budget requires Congressional approval, and CLF may not make loans to members for the purpose of expanding credit union loan portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as CLF, that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – CLF maintains its accounting records on the accrual basis of accounting. CLF recognizes interest on loans and interest on investments when they are earned, and recognizes interest on borrowings when it is incurred. CLF recognizes expenses when incurred. CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Cash and Cash Equivalents – CLF considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments – By statute, CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are

classified as held-to-maturity under FASB Accounting Standards Codification (ASC) 320-10-25-1, *Classification of Investment Securities*, as CLF has the intent and ability to hold these investments until maturity. Accordingly, CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the “investment income” line item in the Statement of Operations.

CLF records investment transactions when they are made.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. CLF obtains a security interest in the assets of the borrower equal to at least 110 percent of all amounts due. For member loans issued under the Credit Union System Investment Program (CU SIP) and Credit Union Homeowners Affordability Relief Program (CU HARP), CLF obtains a security interest in the assets of the borrower equal to 200 percent of the amount due under the programs. CLF does not currently charge fees for its lending activities.

CLF has form documents in place that reflect the repayment, security, and credit reporting terms applicable to all CLF loans. CLF makes loan disbursements through the corporate credit union network and relies on members of the corporate network to service loans it has made. CLF relies on the U.S. Central Federal Credit Union (USC) and its successor, U.S. Central Bridge Corporate Federal Credit Union (USC Bridge), (Note 7) as its agents and master servicers for all loans; USC relies on the appropriate corporate credit union as its agent to service loans owed by its natural person credit union members. CLF requires each corporate credit union acting as a loan servicer to subordinate any claims it might have in the collateral owned by natural person credit unions that may have been pledged to secure an advance from the corporate credit union.

CLF management reviews the allowance for loan losses annually. In determining the allowance for loan losses, when applicable, CLF evaluates the collectability of its loans to members through examining the financial condition of the individual borrowing credit unions and the credit union industry in general.

A loan is considered impaired if it is probable that CLF will not collect all principal and interest actually due. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. CLF does not accrue interest when a loan is considered impaired. When ultimate collectability of the principal balance of the impaired loan is in doubt, all cash receipts on the impaired loan are applied to reduce the principal of such loan until the principal has been recovered, and are recognized as interest income thereafter. Impairment losses are charged against the allowance, and increases in the allowance are charged as bad debt expense. Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. There was no allowance and no past due loans as of December 31, 2010 and 2009, and there were no write offs for fiscal years (FY) 2010 and 2009. CLF management considers write offs remote because all member loans must be collateralized with a minimum of 110 percent of the outstanding amount.

CLF recognizes loans when they are issued and related repayments when they are received.

Borrowings – CLF's borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at amortized cost. Repayments are recorded when they are made.

Tax-Exempt Status – CLF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Related Parties – CLF exists within NCUA and is managed by the NCUA Board. NCUA Operating Fund (OF) provides CLF with information technology, support services, and supplies. In addition, NCUA OF pays CLF's employees' salaries and benefits, as well as CLF's portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time CLF employees spend performing CLF functions.

The National Credit Union Share Insurance Fund (NCUSIF) is also a related party. CLF has the statutory authority to advance funds to NCUSIF; such advances were made in 2009 (Note 11).

3. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents as of December 31, 2010 and 2009 are as follows:

	2010	2009
U.S. Treasury Securities	\$ 1,778	\$ 5,261
USC Daily Transaction Share Account	110	622
PNC Bank	<u>17</u>	<u>17</u>
Total	<u>\$ 1,905</u>	<u>\$ 5,900</u>

The USC Daily Transaction Share Account is a variable rate share account used primarily for CLF clearing transactions. The account is available only to CLF. U.S. Treasury securities had an initial term of less than three months when purchased.

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2010 and 2009 were as follows:

	<u>Carrying Amount</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
As of December 31, 2010:				
U.S. Treasury Securities:	<u>\$ 1,977,556</u>	<u>4,977</u>	<u>-</u>	<u>1,982,533</u>
As of December 31, 2009:				
U.S. Treasury Securities:	\$ 1,828,831	4,335	(211)	1,832,955

Maturities of debt securities classified as held-to-maturity were as follows as of December 31, 2010 and 2009:

	2010		2009	
	Net Carrying Amount	Aggregate Fair Value	Net Carrying Amount	Aggregate Fair Value
Due in one year or less	\$ 1,868,391	\$ 1,873,003	\$ 993,122	\$ 994,036
Due after one year through five years	104,183	104,416	832,721	836,083
Due after five years through ten years	4,982	5,114	2,988	2,836
Total	\$ 1,977,556	\$ 1,982,533	\$ 1,828,831	\$ 1,832,955

5. FAIR VALUE MEASUREMENTS

FASB ASC 820-10-05, *Fair Value Measurements*, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements for fair value measurements. The standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that CLF has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

The following table presents the carrying amounts and established fair values of CLF's financial instruments as of December 31, 2010 and 2009. The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date.

Cash and cash equivalents – The carrying amounts for cash and cash equivalents approximate fair value.

Investments held-to-maturity – CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which a share price can be readily obtained. The fair value for investments is determined using the quoted market prices at the reporting date (observable inputs).

Loans – For loans advanced to member credit unions and the loans to related party, the carrying amounts approximate fair value because all loans have a maturity of one year or less.

Federal Financing Bank Notes Payable – For notes issued to the Federal Financing Bank (FFB), when applicable, the carrying amounts approximate fair value because all borrowings have a maturity of one year or less.

Member Deposits – Funds maintained with CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable and other liabilities, dividends payable, and accrued interest payable are recorded at book values, which approximate the respective fair values.

The carrying values and approximate fair values of financial instruments as of December 31, 2010 and December 31, 2009 are as follows:

Financial Instruments	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 1,905	\$ 1,905	\$ 5,900	\$ 5,900
Investments held to maturity	1,977,556	1,982,533	1,828,831	1,832,955
Loans to members	-	-	8,312,751	8,312,751
Loan to related party	-	-	10,000,000	10,000,000
Accrued interest receivable	500	500	23,591	23,591
Accounts payable and other liabilities	239	239	171	171
Dividends payable	1,479	1,479	1,375	1,375
Federal Financing Bank notes payable	-	-	18,312,751	18,312,751
Accrued interest payable	-	-	23,561	23,561
Member deposits	329	329	363	363

6. LOANS TO MEMBERS

CLF has form documents in place that reflect the repayment, security, and credit reporting terms applicable to all CLF loans. CLF makes loan disbursements through the corporate credit union network and relies on members of the corporate network to service loans it has made. CLF relies on USC and its successor, USC Bridge, as its agents and master servicers for all loans; USC relies on the appropriate corporate credit union as its agent to service loans owed by its natural person credit union members. CLF requires each corporate credit union acting as loan servicer to subordinate any claims it might have in the collateral owned by natural person credit unions that may have been pledged to secure an advance from the corporate credit union.

In January 2009, the NCUA Board changed the methodology by which CLF funded natural person credit union loans by modifying the agreement between CLF and USC, and creating a new assignment agreement between CLF and USC. This change was effective for all CLF loans made after January 20, 2009. Prior to the changes, loan proceeds were passed through USC to the corporate credit union and ultimately to the natural person credit union. Loan documents were signed at each level such that the natural person credit union borrower was indebted to its corporate credit union, which was indebted to USC, which was obligated to repay the advance to CLF. The NCUA Board approved streamlining this relationship so that the indebtedness of the natural person credit union to CLF is direct.

During 2009, the NCUA Board obtained concurrence from the Secretary of the Treasury and the Board of Governors of the Federal Reserve System on its determination that extensions of credit to members of CLF for purposes other than the statutorily defined liquidity needs are in the national economic interest, with the understanding that extensions of credit will not be made or used for a purpose that conflicts with the Federal Credit Union Act (12 USC §1795a). CLF began making Other Than Liquidity Needs (OTLN)-based loans in January 2009.

The two initiatives for OTLN lending are CU SIP and CU HARP. All loans granted under CU SIP matured in the first quarter of 2010, while the CU HARP loans matured December 30, 2010. The CU SIP and CU HARP loan amounts, maturity dates, and interest rates are presented in the table below. Both programs were match-funded with advances from the FFB.

	Amount	Maturity Date	Interest Rate
CU SIP 1	\$ 4,801,984	1/8/2010	0.5650%
CU SIP 2	2,915,062	2/12/2010	0.7060%
CU SIP 3	500,000	3/12/2010	0.8290%
CU HARP	<u>95,705</u>	12/30/2010	0.5740%
Total	<u><u>\$ 8,312,751</u></u>		

7. CAPITAL STOCK

Membership in CLF is voluntary and is open to all credit unions that purchase a prescribed amount of capital stock. CLF capital stock is non-voting and shares have a par value of \$50. There are two types of membership—regular (natural person credit unions) and agent (corporate credit unions). Natural person credit unions may borrow from CLF directly as a regular member or indirectly through an agent member.

The capital stock account represents subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which is required to be remitted to CLF. In both cases, member credit unions are required to hold the remaining one-half in liquid assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid only on required capital stock.

During FY1984, CLF accepted a membership request from USC on behalf of its corporate credit union members. As of December 31, 2009, \$1,750,551 of CLF capital stock was purchased by USC on behalf of its member corporate credit union members. USC had 26 corporate credit union members as of December 31, 2009.

On October 1, 2010, USC was liquidated and certain Balance Sheet items were conveyed, with no change to the rights and obligations, to the newly chartered USC Bridge as of the liquidation date, including the capital stock of CLF. As of December 31, 2010, \$1,885,176 of CLF capital stock was purchased by USC Bridge on behalf of its member corporate credit union members. CLF has a plan for the transfer of ownership of the capital stock to member credit unions when USC Bridge ultimately winds down. USC Bridge had 25 corporate credit union members as of December 31, 2010.

A member of CLF whose capital stock account constitutes less than five percent of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes five percent or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2010, CLF had no member withdrawal requests pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions; however, the stock is not deemed “mandatorily redeemable” as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

CLF’s capital stock accounts were composed of the following as of December 31, 2010 and 2009:

	2010		2009	
	Shares	Amount	Shares	Amount
Regular members	1,414,633	\$ 70,732	1,363,531	\$ 68,177
Agent members	37,703,526	1,885,176	35,011,027	1,750,551
Total	<u>39,118,159</u>	<u>\$ 1,955,908</u>	<u>36,374,558</u>	<u>\$ 1,818,728</u>

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for both regular and agent members change quarterly.

During 2009, USC paid in full \$1,719,574 for an outstanding shareholder loan.

8. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

9. CONCENTRATION OF CREDIT RISK

In January 2009, the NCUA Board announced two additional actions, which provided immediate enhancement to the corporate credit union system’s liquidity and capital positions. One of these actions was a temporary NCUSIF guarantee of member shares in corporate credit unions. The guarantee covers all shares through December 31, 2012 and included CLF’s deposit in the USC Daily Transaction Share Account.

10. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. Until October 1, 2008, Congress, through the appropriations process, placed a limit on gross obligations at \$1,500,000. However, effective October 1, 2008, under Public Law 110-329, *Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009*, Congress took action to remove the annual borrowing limitation of \$1,500,000 to enable CLF to borrow up to its full statutory authority. As of December 31, 2010, CLF's statutory borrowing authority was \$47,205,862.

CLF borrows exclusively from FFB. NCUA maintains a note purchase agreement with FFB on behalf of CLF. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the master note agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances made under the current promissory notes cannot exceed \$35,000,000 and cannot mature later than March 31, 2012. During 2010, CLF borrowed amounts totaling \$5,000 from FFB under one loan agreement, which CLF then loaned to a member credit union. As of December 31, 2010, CLF had \$35,000,000 available capacity to borrow under its current promissory notes, and such funds are available through March 31, 2011.

As of December 31, 2010, CLF was in compliance with its borrowing authority.

11. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and benefits of CLF's employees, CLF's building, and operating costs. Expenses are allocated by applying the ratio of CLF full-time equivalent employees to the NCUA total. These expenses are reimbursed to NCUA OF quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by NCUA was approximately \$483 and \$334, respectively, for December 31, 2010 and 2009. Accounts payable and other liabilities include approximately \$183 and \$145, respectively, for December 31, 2010 and 2009, due to NCUA OF for services provided.

On March 19, 2009, the NCUA Board took steps to stabilize the corporate credit union system when it placed USC and Western Corporate Federal Credit Union (WesCorp) into conservatorship. CLF entered into a Funding Commitment and Agreement, as well as a Short-Term Revolving Promissory Note, on March 20, 2009, to fund \$20,000,000 with a final maturity date of any advance of December 31, 2010. There was \$10,000,000 remaining on this commitment as of December 31, 2009. CLF approved an advance of \$10,000,000 to NCUSIF in order for NCUSIF to make \$5,000,000 in liquidity stabilization loans to both USC and WesCorp. This advance was made on March 23, 2009, for a period of 91 days, maturing on June 22, 2009. On June 22, 2009, the advance was renewed for an additional 182 days, maturing on December 21, 2009. On December 21, 2009, the advance was renewed again for an additional 365 days, maturing on December 21, 2010. The advance bears interest at a rate of 0.5280% per annum. CLF elected to repurchase this note from FFB prior to the original stated maturity and all amounts due to FFB were paid on October 12, 2010.

12. SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred after December 31, 2010 through February 10, 2011, which is the date CLF issued these financial statements, and determined that there are no other items to disclose.



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheets of the National Credit Union Administration Central Liquidity Fund (CLF) as of December 31, 2010 and 2009 and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the CLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the CLF's internal control over financial reporting by obtaining an understanding of the CLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



National Credit Union Administration Central Liquidity Facility
February 10, 2011
Page 2 of 2

Exhibit I presents the status of the prior year significant deficiency.

This report is intended solely for the information and use of the addressees, the CLF's management, the OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 10, 2011

2009 Finding	Deficiency Type	2010 Status
CLF should improve and formalize its processes and controls over the preparation of the financial statements, especially with respect to the statement of cash flows and the statement of members' equity.	Significant Deficiency	Closed



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2010 and 2009, and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the CLF is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the CLF. As part of obtaining reasonable assurance about whether the CLF's financial statements are free of material misstatement, we performed tests of the CLF's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the CLF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our other tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, CLF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 10, 2011



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2010 and 2009, and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the CDRLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CDRLF as of December 31, 2010 and 2009, and its results of operations, changes in fund balance, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 10, 2011, on our consideration of the CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 10, 2011

BALANCE SHEETS
As of December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and Cash Equivalents (Note 3)	\$ 11,566,056	\$ 8,949,290
Loans Receivable (Notes 5, 6, and 7)	5,482,614	8,818,487
Interest Receivable (Note 7)	<u>12,984</u>	<u>19,193</u>
Total	<u>\$ 17,061,654</u>	<u>\$ 17,786,970</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES — Accrued Technical Assistance (Note 7)	\$ 2,194,094	\$ 1,604,064
 FUND BALANCE:		
Fund Capital	13,387,777	14,637,777
Accumulated Earnings	<u>1,479,783</u>	<u>1,545,129</u>
Total Fund Balance	<u>14,867,560</u>	<u>16,182,906</u>
 Total	<u>\$ 17,061,654</u>	<u>\$ 17,786,970</u>

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
SUPPORT AND REVENUES:		
Interest on Cash Equivalents (Notes 3 and 7)	\$ 6,497	\$ 4,066
Interest on Loans (Note 7)	72,925	102,584
Appropriation Revenue (Note 4)	<u>1,250,000</u>	<u>1,000,000</u>
Total Support and Revenues	<u>1,329,422</u>	<u>1,106,650</u>
EXPENSES:		
Technical Assistance	1,394,720	1,049,778
Provision for Loan Losses	<u>48</u>	<u>(1,950)</u>
Total Expenses	<u>1,394,768</u>	<u>1,047,828</u>
NET INCOME/(LOSS)	<u>\$ (65,346)</u>	<u>\$ 58,822</u>

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2010 and 2009

	Fund Capital			Accumulated Earnings	Total Fund Balance
	For Loans	For Technical Assistance	Total Fund Capital		
December 31, 2008	\$13,387,777	\$47,865	\$13,435,642	\$1,486,307	\$14,921,949
Appropriations Received (Note 4)	-	2,250,000	2,250,000	-	2,250,000
Appropriations Expended	-	(1,000,000)	(1,000,000)	-	(1,000,000)
Appropriations Expired	-	(47,865)	(47,865)	-	(47,865)
Net Income	-	-	-	58,822	58,822
DECEMBER 31, 2009	13,387,777	1,250,000	14,637,777	1,545,129	16,182,906
Appropriations Received (Note 4)	-	-	-	-	-
Appropriations Expended	-	(1,250,000)	(1,250,000)	-	(1,250,000)
Appropriations Expired	-	-	-	-	-
Net Loss	-	-	-	(65,346)	(65,346)
DECEMBER 31, 2010	\$13,387,777	-	\$13,387,777	\$1,479,783	\$14,867,560

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss)/Income	\$ (65,346)	\$ 58,822
Adjustments to Reconcile Net (Loss)/ Income to Net Cash Used in Operating Activities:		
Appropriation Revenue Recognized	(1,250,000)	(1,000,000)
Changes in Assets and Liabilities:		
Decrease in Interest Receivable	6,209	6,427
Increase in Accrued Technical Assistance	<u>590,030</u>	<u>336,687</u>
Net Cash Used in Operating Activities	(719,107)	(598,064)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan Principal Repayments	3,607,388	4,323,025
Loan Disbursements	<u>(271,515)</u>	<u>(2,588,000)</u>
Net Cash Provided by Investing Activities	3,335,873	1,735,025
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received 2009/2010	-	1,000,000
Appropriations Received 2010/2011	-	1,250,000
Appropriations Expired	<u>-</u>	<u>(47,865)</u>
Net Cash Provided by Financing Activities	-	2,202,135
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,616,766	3,339,096
CASH AND CASH EQUIVALENTS — Beginning of Year	<u>8,949,290</u>	<u>5,610,194</u>
CASH AND CASH EQUIVALENTS — End of Year	<u>\$ 11,566,056</u>	<u>\$ 8,949,290</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2010 and 2009

1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund (CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions, which is expected to result in increased income, ownership, and employment opportunities for low-income residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

Basis of Presentation – CDRLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – CDRLF reports its financial statements on the accrual basis of accounting in conformity with GAAP.

Cash Equivalents – The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2010 and 2009 were cash equivalents and were stated at cost, which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Loans Receivable and Allowance for Loan Losses – Loans are limited to a maximum amount of \$300,000 per credit union. By regulation, a loan may have a fixed annual percentage rate of not more than 3% and not less than 1%. Per NCUA policy, loans issued after January 1, 2002 carry a fixed annual rate of 1%. Interest and principal are to be repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years.

CDRLF records a provision for estimated loan losses based on historical loss experience. A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off or recovered. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2010 and 2009. Accrual of interest is discontinued on non-performing loans when management believes collectability is doubtful.

Overhead Expenses – NCUA provides certain general and administrative support to CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to CDRLF.

Revenue Recognition – Appropriation revenue is recognized according to FASB ASC 958-605, *Revenue Recognition for Non-Profit Entities*, as the related technical assistance expense is recognized. Total appropriation revenues will differ from total technical assistance expenses because not all technical assistance is funded by appropriations. Interest income on cash and equivalents, and on loans is recognized when earned.

Expense Recognition – Technical assistance expense is recognized when CDRLF makes a formal commitment to the recipient credit union for technical assistance and other grants.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates.

Income Taxes – CDRLF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

3. CASH AND CASH EQUIVALENTS

CDRLF’s cash and cash equivalents as of December 31, 2010 and December 31, 2009 are as follows:

	2010	2009
Deposit U.S. Treasury	\$ 5,566,056	\$3,949,290
U.S. Treasury Overnights	<u>6,000,000</u>	<u>5,000,000</u>
	<u><u>\$11,566,056</u></u>	<u><u>\$8,949,290</u></u>

4. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the \$16,182,906 appropriated to date for CDRLF, which includes accumulated earnings. Federally-chartered and state-chartered credit unions with a low-income designation are eligible to participate in CDRLF’s loan and technical assistance program.

During the year ended December 31, 2010, CDRLF received no appropriations.

During the year ended December 31, 2009, CDRLF received appropriations for technical assistance in the amount of \$2,250,000: \$1,000,000 for fiscal years (FY) 2009-2010, with no rescissions; and, \$1,250,000 for FYs 2010 – 2011 with no rescissions.

These amounts were designated to be used for technical assistance, and no amounts were designated to be used as revolving loans.

No appropriations were remitted to the U.S. Treasury in 2010 upon expiration.

Appropriations in the amount of \$47,865 from FYs 2003 and 2004 were remitted to the U.S. Treasury in 2009 upon expiration.

For the appropriations received for technical assistance for FY 2009 – 2010, \$1,000,000 expired on September 30, 2010 and \$1,250,000 expires on September 30, 2011.

5. LOANS RECEIVABLE

Loans outstanding as of December 31, 2010, are scheduled to be repaid during the following subsequent years:

	2010
2011	\$ 2,350,099
2012	2,059,818
2013	520,499
2014	500,499
2015	<u>51,699</u>
Loans Outstanding	5,482,614
Allowance for loan losses	<u>-</u>
Total Loans Receivable	<u><u>\$ 5,482,614</u></u>

NCUA Rules and Regulations Section 705.7 permits the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, an amount not to exceed \$250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled \$7,021 and \$293,910 as of December 31, 2010 and 2009, respectively.

CDRLF has the intent and ability to hold its loans to maturity. CDRLF anticipates realizing the carrying amount in full.

6. CONCENTRATION OF CREDIT RISK

As of December 31, 2010 and December 31, 2009, there are no significant geographic or individual counterparty concentrations of credit risk in the loan portfolio. As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

7. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

CDRLF adopted the provisions of FASB ASC 820-10-05, Fair Value Measurements, for fair value measurements of financial assets and financial liabilities. The standard defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements for fair value measurements. The standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that CDRLF has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date.

Loans Receivable – Fair value is estimated using an income approach by discounting each individual loan's projected future cash flow. CDRLF believes that the discount rate reflects the pricing and risk of the loans to CDRLF. Loans are valued yearly on December 31, 2010.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance approximate fair value.

The following table presents the carrying amounts and established fair values of CDRLF's financial instruments as of December 31, 2010 and 2009.

	2010		2009	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Assets:				
Cash and cash equivalents	\$ 11,566,056	\$ 11,566,056	\$ 8,949,290	\$ 8,949,290
Loans receivable	5,482,614	5,496,833	8,818,487	8,310,773
Interest receivable	12,984	12,984	19,193	19,193
Liabilities:				
Accrued technical assistance	2,194,094	2,194,094	1,604,064	1,604,064

8. OVERHEAD EXPENSES

NCUA, in supporting the activities of CDRLF, provides for the administration of CDRLF. The administrative costs paid by NCUA's Operating Fund (OF) are directly related to the percentage of employee's time spent on CDRLF. The administrative cost calculation takes into account the employees' salary, benefits, travel, training, and certain "other" costs (e.g., telephone, supplies, printing, and postage).

For the years ending December 31, 2010 and December 31, 2009, NCUA, through the OF, paid the following overhead expenses on behalf of CDRLF:

	2010	2009
Employee	\$ 387,233	\$ 242,223
Other	<u>15,519</u>	<u>12,303</u>
Total	<u>\$ 402,752</u>	<u>\$ 254,526</u>

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 10, 2011, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2010 and 2009 and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the CDRLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the CDRLF's internal control over financial reporting by obtaining an understanding of the CDRLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



National Credit Union Administration Community Development Revolving Loan Fund
February 10, 2011
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Exhibit I presents the status of prior year significant deficiency and material weaknesses.

This report is intended solely for the information and use of the addressees, CDRLF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 10, 2011

STATUS OF PRIOR YEAR FINDINGS**Exhibit I**

2009 Finding	Deficiency Type	2010 Status
Improvements Needed in Management's Review Procedures Over the Cash Handling and Reconciliation Process	Material Weakness	Closed
Improvements Needed in Management's Review Procedures Over the Financial Accounting and Reporting Process	Significant Deficiency	Closed



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

We have audited the balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2010 and 2009, and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the CDRLF is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the CDRLF. As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free of material misstatement, we performed tests of the CDRLF's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the CDRLF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our other tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, CDRLF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 10, 2011

Resilience *and the* Road Ahead



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Statistical
Data

Insurance Fund Ten-Year Trends

Fiscal year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 ⁴
Income (in thousands)										
Premium	—	—	—	—	—	—	—	—	\$727,466	\$929,952
Investment income ¹	\$252,853	\$213,252	\$151,175	\$124,836	\$175,017	\$264,895	\$320,163	\$390,922	\$188,774	\$216,921
Other income	\$1,703	\$1,226	\$760	\$515	\$645	\$1,326	\$1,166	\$4,737	\$33,319	\$49,223
Total income	\$254,556	\$214,478	\$151,935	\$125,351	\$175,662	\$266,221	\$321,329	\$395,659	\$949,559	\$1,196,096
Expenses (in thousands)										
Operating	\$90,505	\$85,367	\$85,025	\$81,405	\$80,473	\$82,056	\$79,218	\$81,516	\$134,624	\$165,830
Insurance losses	—	\$12,513	\$38,043	\$(3,424)	\$20,940	\$2,548	\$186,397	\$290,354	\$625,140	\$735,562
Losses on investment sales	—	—	—	—	—	—	—	—	—	—
Total expenses	\$90,905	\$97,880	\$123,068	\$77,981	\$101,413	\$84,604	\$265,615	\$371,870	\$759,764	\$901,392
Net income (in thousands)	\$164,051	\$116,598	\$28,867	\$47,370	\$74,249	\$181,617	\$55,714	\$23,789	\$189,795	\$294,704
Data highlights										
Total equity (in millions) ²	\$5,036	\$5,607	\$6,073	\$6,359	\$6,618	\$6,978	\$7,261	\$7,677	\$8,957	\$9,856
Equity as a percentage of shares in insured credit unions	1.25%	1.27%	1.27%	1.27%	1.28%	1.30%	1.29%	1.26%	1.23%	1.28%
NCUSIF loss per \$1,000 of insured shares	\$0.00	\$0.03	\$0.08	\$0.00	\$0.04	\$0.00	\$0.33	\$0.47	\$0.86	\$0.97
Operating ratios										
Premium income	—	—	—	—	—	—	—	—	76.6%	77.8%
Investment income	99.3%	99.4%	99.5%	99.6%	99.6%	99.5%	99.6%	98.8%	19.9%	18.1%
Other income	0.7%	0.6%	0.5%	0.4%	0.4%	0.5%	0.4%	1.2%	3.5%	4.1%
Operating expenses	35.6%	39.8%	56.0%	64.9%	45.8%	30.8%	24.7%	20.6%	14.2%	13.9%
Insurance losses	0.0%	5.8%	25.0%	(2.7)%	11.9%	1.0%	58.0%	73.4%	65.8%	61.5%
Total expenses	35.6%	45.6%	81.0%	62.2%	57.7%	31.8%	82.7%	94.0%	80.0%	75.4%
Net income	64.4%	54.4%	19.0%	37.8%	42.3%	68.2%	17.3%	6.0%	20.0%	24.6%
Involuntary liquidations commenced										
Number	17	14	8	14	10	12	7	15	16	18
Share payouts (in thousands)	\$16,290	\$40,003	\$ 7,774	\$88,746	\$27,137	\$19,799	\$195,325	\$648,620	\$713,112	\$701,145
Share payouts as a percentage of total insured shares	0.004%	0.009%	0.002%	0.018%	0.005%	0.004%	0.035%	0.106%	0.098%	0.093%

¹2008 includes \$106 million gain on sale of U.S. Treasury Securities.

²2008 equity does not include unrealized gain of \$278 million from U.S. Treasury securities held as "Available for Sale Securities".

³Amounts for 2006 and 2007 represent the carrying value of guarantees as determined under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Insured Share Guarantees, including indirect guarantees of indebtedness of others".

⁴The NCUSIF adopted Federal Accounting Standards Advisory Board (FASAB) accounting standards beginning in 2010. For the purpose of this table, total income includes both exchange and non-exchange revenue.

Fiscal year	2001	2002	2003	2004	2005	2006	2007	2008 ³	2009 ⁴	2010
Mergers—fiscal year										
Assisted	5	1	5	7	5	4	5	3	10	11
Unassisted	295	271	166	331	260	281	237	253	207	193
Section 208 (FCU Act) assistance to avoid liquidation (in thousands)										
Capital notes and other cash advances outstanding	\$2,050	\$0	\$0	\$0	\$0	\$15,000	\$0	\$0	\$11,000,000	-
Non-cash guaranty accounts	\$2,559	\$156	\$7,872	\$70	\$4,649	\$679	\$233,088	\$126,340	\$7,451	\$108,046
Number of active cases	10	3	10	1	8	4	6	5	9	5
Number of problem case insured credit unions (CAMEL code 4 & 5)										
Number	205	211	217	255	280	240	211	271	351	365
Shares (millions)	\$1,731	\$2,901	\$3,568	\$4,350	\$5,771	\$5,160	\$5,300	\$15,358	\$38,749	\$35,839
Problem case shares as a percentage of insured shares	0.43%	0.66%	0.74%	0.87%	1.12%	0.96%	0.94%	2.33%	5.35%	4.74%
December 31										
Shares in insured credit unions (in millions)¹										
Federal credit unions	\$217,112	\$238,912	\$262,420	\$276,395	\$285,713	\$296,469	\$308,917	\$373,371	\$408,832	\$427,603
State credit unions	185,574	202,552	215,056	222,573	229,909	237,724	251,915	307,759	343,835	358,877
Total shares	\$402,686	\$441,464	\$477,476	\$498,968	\$515,622	\$534,193	\$560,832	\$681,130	752,667	786,480
Number of member accounts in insured credit unions (in thousands)										
Federal credit unions	74,886	76,554	79,819	81,668	84,556	87,869	88,543	90,418	91,854	92,648 ²
State credit unions	61,290	62,597	62,489	63,585	64,632	67,432	69,513	72,351	74,324	75,661
Total	136,176	139,151	142,308	145,253	149,188	155,302	158,056	162,769	166,178	168,310
Number of insured credit unions										
Federal credit unions	6,118	5,953	5,776	5,572	5,393	5,189	5,036	4,847	4,714	4,589
State credit unions	3,866	3,735	3,593	3,442	3,302	3,173	3,065	2,959	2,840	2,750
Total	9,984	9,688	9,369	9,014	8,695	8,362	8,101	7,806	7,554	7,339
Insured shares as a percentage of all credit union shares	92.1%	91.2%	90.4%	89.7%	89.0%	88.9%	88.7%	96.7%	96.3%	96.1%
State credit union portion of insured shares	46.1%	45.9%	45.0%	44.6%	44.4%	44.5%	44.9%	45.2%	45.7%	45.7%

¹Insured shares in natural person credit unions.

²Does not include nonmember accounts.

³2008 Data updated to account for many call report corrections because of stabilization expense.

⁴2009-2010 Gross Income excludes NCUSOF Stabilization Income, 2009-2010 Operating NCUSIF Expense excludes Stabilization Expense and 2009-2010 Net Income excludes NCUSIF Stabilization Income and Expense.

Federal Credit Union Ten-Year Summary

Federal credit unions December 31 (dollar amounts in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of credit unions	6,118	5,953	5,776	5,572	5,393	5,189	5,036	4,847	4,714	4,589
Number of members	43,816,877	44,610,949	46,155,018	46,857,723	47,913,908	48,254,366	48,474,331	49,135,767	49,596,429	50,081,400
Assets	\$270,125	\$301,238	\$336,612	\$358,704	\$377,826	\$394,130	\$417,579	\$447,024	\$482,612	\$500,075
Loans outstanding	170,326	181,767	202,898	223,878	249,521	270,418	289,170	309,276	311,146	306,276
Shares	235,202	261,819	291,485	308,318	321,831	333,914	349,101	373,366	408,830	427,603
Reserves ¹	11,339	12,227	12,881	13,342	13,368	14,096	14,580	14,866	15,087	15,875
Undivided earnings	18,596	20,855	23,526	26,054	28,855	31,580	33,368	33,073	33,168	34,615
Gross income	20,042	19,676	19,764	20,302	22,796	26,137	29,304	29,877	28,990	28,680
Operating expenses	9,287	10,158	11,239	12,128	13,308	13,900	13,523	15,320	14,711	15,078
Dividends	8,277	6,369	5,199	4,683	5,930	8,398	10,588	9,684	7,421	5,483
Reserve transfers										
Net income ²	\$2,436	\$3,082	\$3,273	\$3,351	\$3,295	\$3,419	\$2,910	\$158	\$935	\$3,528
Percent change										
Total assets	11.2%	11.5%	11.7%	6.6%	5.3%	4.3%	5.9%	7.1%	8.0%	3.6%
Loans outstanding	4.0	6.7	11.6	10.3	11.5	8.4	6.9	7.0	0.6	-1.6%
Shares	11.9	11.3	11.3	5.8	4.4	3.6	4.5	7.0	9.5	4.6%
Reserves ¹	4.6	7.8	5.3	3.6	0.2	5.4	3.4	2.0	1.5	5.2%
Undivided earnings	7.6	12.1	12.8	10.7	10.8	9.4	5.7	-0.9	0.3	4.4%
Gross income	3.0	-1.8	0.4	2.7	12.3	14.7	12.1	2.0	-3.0	-1.1%
Operating expenses	6.5	9.4	10.6	7.9	9.7	4.4	-2.7	13.3	-4.0	2.5%
Dividends	1.9	-23.1	-18.4	-9.9	26.6	41.6	26.1	-8.5	-23.4	-26.1%
Net income ²	-1.4	26.5	6.2	2.4	-1.7	3.8	-14.9	-94.6	490.8	277.5%
Significant ratios										
Reserves to assets	4.2%	4.1%	3.8%	3.7%	3.5%	3.6%	3.5%	3.3%	3.1%	3.2%
Reserves and undivided earnings to assets	11.1	11.0	10.8	11.0	11.2	11.6	11.5	10.7	10.0	10.1%
Reserves to loans	6.7	6.7	6.3	6.0	5.4	5.2	5.0	4.8	4.8	5.2%
Loans to shares	72.4	69.4	69.6	72.6	77.5	81.0	82.8	82.8	76.1	71.6%
Operating expenses to gross income	46.3	51.6	56.9	59.7	58.41	48.6	46.3	51.3	50.7	52.6%
Salaries and benefits to gross income	21.0	23.3	25.9	27.0	25.8	24.2	23.1	24.1	25.7	26.5%
Dividends to gross income	41.3	32.4	26.3	23.1	26.0	32.1	36.1	32.4	25.6	19.1%
Yield on average assets	7.8	6.9	6.2	5.8	6.2	5.5	7.2	6.9	6.2	11.5%
Cost of funds to average assets	3.3	2.3	1.7	1.4	1.7	2.3	2.8	2.4	1.8	2.5%
Gross spread	4.5	4.6	4.5	4.4	4.5	4.5	4.5	4.5	4.5	9.0%
Net income divided by gross income ²	12.2	14.8	16.6	16.5	14.5	13.1	9.9	0.5	3.2	12.3%
Yield on average loans	8.2	7.7	6.9	6.3	6.2	6.5	6.7	6.6	6.3	12.4%
Yield on average investments ³	4.9	3.5	2.7	2.6	3.2	4.0	4.7	3.9	2.7	2.7%

¹Does not include the allowance for loan losses; ² Net income prior to reserve transfers ; ³Starting in 2000, investments includes cash on deposit and cash equivalents

Federally Insured State-Chartered Credit Union Ten-Year Summary

Federally insured state-chartered credit unions December 31 (dollar amounts in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of credit unions	3,866	3,735	3,593	3,442	3,302	3,173	3,065	2,959	2,840	2,750
Number of members	35,532,391	36,336,258	36,273,168	36,710,301	36,896,076	37,499,194	38,363,147	39,452,166	40,322,527	40,447,236
Assets	\$231,280	\$255,838	\$273,572	\$288,296	\$300,871	\$315,817	\$335,885	\$364,043	401,993	414,395
Loans outstanding	152,014	160,881	173,236	190,377	208,734	223,917	237,755	256,719	261,367	258,555
Shares	201,807	222,377	236,856	247,804	255,588	267,274	283,298	307,762	343,836	358,877
Reserves ¹	10,266	11,105	10,895	10,997	11,117	11,474	11,763	12,414	12,642	12,896
Undivided earnings	14,563	16,229	18,231	20,202	21,943	24,337	26,106	25,614	26,368	28,066
Gross income	17,385	17,075	16,378	16,538	18,164	20,936	23,703	24,026	23,531	23,390
Operating expenses	8,053	8,990	9,629	10,250	10,806	11,348	11,278	12,842	12,292	12,548
Dividends	5,547	4,020	3,123	2,800	3,557	5,084	6,277	5,695	4,304	3,126
Reserve transfers										
Net income ²	\$2,060	\$2,584	\$2,508	\$2,439	\$2,363	\$2,302	\$1,828	\$(588)	\$230	\$3,036
Percent change										
Total assets	18.4%	10.6%	6.9%	5.4%	4.4%	5.0%	6.4%	8.4%	10.4%	3.1%
Loans outstanding	10.6	5.8	7.7	9.9	9.6	7.3	6.2	8.0	1.8	-1.1%
Shares	19.4	10.2	6.5	4.6	3.1	4.6	6.0	8.6	11.7	4.4%
Reserves ¹	12.6	8.2	-1.9	0.9	1.1	3.2	2.5	5.5	1.8	2.0%
Undivided earnings	13.5	11.4	12.3	10.8	8.6	10.9	7.3	-1.9	2.9	6.4%
Gross income	10.6	-1.8	-4.1	1.0	9.8	15.3	13.2	1.4	-2.1	-0.6%
Operating expenses	14.6	11.6	7.1	6.4	5.4	5.0	-0.6	13.9	-4.3	2.1%
Dividends	5.5	-27.5	-22.3	-10.3	27.0	42.9	23.5	-9.3	-24.4	-27.4%
Net income ²	10.8	25.5	-2.9	-2.8	-3.1	-2.5	-20.6	-130.5	-141.2	1219.7%
Significant ratios										
Reserves to assets	4.4%	4.3%	4.0%	3.8%	3.7%	3.6%	3.5%	3.4%	3.1%	3.1%
Reserves and undivided earnings to assets	10.7	10.7	10.6	10.8	11.0	11.3	11.3	10.4	9.7	9.9%
Reserves to loans	6.8	6.9	6.3	5.8	5.3	5.1	4.9	4.8	4.8	5.0%
Loans to shares	75.3	72.3	73.1	76.8	81.7	83.8	83.9	83.4	76.0	72.0%
Operating expenses to gross income	46.3	52.7	58.8	62.0	59.5	54.2	47.6	53.5	52.2	53.6%
Salaries and benefits to gross income	20.6	23.2	26.2	27.8	26.7	24.9	23.9	25.3	26.5	27.3%
Dividends to gross income	31.9	23.5	19.1	16.9	19.6	24.3	26.5	23.7	18.3	13.4%
Yield on average assets	8.2	7.0	6.2	5.9	6.2	6.8	7.3	6.9	6.1	11.3%
Cost of funds to average assets	3.5	2.3	1.7	1.4	1.7	2.4	2.8	2.4	1.7	2.3%
Gross spread	4.7	4.7	4.5	4.5	4.4	6.8	4.5	4.4	4.4	9.0%
Net income divided by gross income ²	11.8	15.1	15.3	14.7	13.0	11.0	7.7	-2.3	1.0	13.0%
Yield on average loans	8.4	7.6	6.6	6.1	6.0	6.4	6.7	6.6	6.2	12.0%
Yield on average investments ³	5.1	3.4	2.7	2.6	3.2	3.9	4.8	3.9	2.6	2.6%

¹ Does not include the allowance for loan losses; ² Net income prior to reserve transfers; ³ Starting in 2000 investments includes cash on deposit and cash equivalents

Federal Credit Union Historical Data

Historical data for federal credit unions December 31, 1935 to 1972

Year	Charters issued	Charters cancelled	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars)		
						Assets	Shares	Loans outstanding
1935	828	0	134	772	119,420	\$ 2,372	\$ 2,228	\$ 1,834
1936	956	4	107	1,751	309,700	9,158	8,511	7,344
1937	638	69	114	2,313	483,920	19,265	17,650	15,695
1938	515	83	99	2,760	632,050	29,629	26,876	23,830
1939	529	93	113	3,182	850,770	47,811	43,327	37,673
1940	666	76	129	3,756	1,127,940	72,530	65,806	55,818
1941	583	89	151	4,228	1,408,880	106,052	97,209	69,485
1942	187	89	332	4,145	1,356,940	119,591	109,822	43,053
1943	108	321	326	3,938	1,311,620	127,329	117,339	35,376
1944	69	285	233	3,815	1,306,000	144,365	133,677	34,438
1945	96	185	202	3,757	1,216,625	153,103	140,614	35,155
1946	157	151	204	3,761	1,302,132	173,166	159,718	56,801
1947	207	159	168	3,845	1,445,915	210,376	192,410	91,372
1948	341	130	166	4,058	1,628,339	258,412	235,008	137,642
1949	523	101	151	4,495	1,819,606	316,363	285,001	186,218
1950	565	83	144	4,984	2,126,823	405,835	361,925	263,736
1951	533	75	188	5,398	2,463,898	504,715	457,402	299,756
1952	692	115	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	188	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	182	384	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	662	194	467	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	586	255	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	516	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	685	274	469	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	671	265	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	284	465	10,632	7,007,630	3,429,805	3,020,274	2,560,722
1963	622	312	452	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	386	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	420	11,941	9,271,967	5,668,941	4,944,033	4,323,943
1967	636	292	495	12,210	9,873,777	6,208,158	5,420,633	4,677,480
1968	662	345	438	12,584	10,508,504	6,902,175	5,986,181	5,398,052
1969	705	323	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720
1970	563	412	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	425	12,708	13,572,312	\$12,513,621	\$10,956,007	\$9,424,180

Data for 1935-44 are partly estimated.

Historical data for federal credit unions December 31, 1973 to 2010

Year	Charters issued	Charters cancelled	Inactive credit unions	Active credit unions	Members	(Amounts in thousands of dollars)		
						Assets	Shares	Loans outstanding
1973	364	523	286	12,688	14,665,890	\$14,568,736	\$12,597,607	\$11,109,015
1974	367	369	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	294	11,631	26,114,649	45,482,943	41,340,911	28,184,280
1983	107	736	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	107	9,758	31,041,142	95,483,828	87,953,642	55,304,682
1987	41	460	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306
1990	33	410	118	8,511	36,241,607	130,072,955	117,891,940	83,029,348
1991	14	291	123	8,229	37,080,854	143,939,504	130,163,749	84,150,334
1992	33	341	128	7,916	38,205,128	162,543,659	146,078,403	87,632,808
1993	42	258	132	7,696	39,755,596	172,854,187	153,505,799	94,640,348
1994	39	224	145	7,498	40,837,392	182,528,895	160,225,678	110,089,530
1995	28	194	148	7,329	42,162,627	193,781,391	170,300,445	120,514,044
1996	14	189	150	7,152	43,545,541	206,692,540	180,964,338	134,120,610
1997	17	179	13	6,981	43,500,553	215,097,395	187,816,918	140,099,926
1998	8	174	1	6,815	43,864,851	231,904,308	202,650,793	144,849,109
1999	17	265	0	6,566	44,076,428	239,315,693	207,613,549	155,171,735
2000	12	235	7	6,336	43,883,106	242,881,164	210,187,670	163,850,918
2001	14	228	11	6,118	43,816,877	270,125,345	235,202,500	170,325,562
2002	21	180	6	5,953	44,610,949	301,238,242	261,819,003	181,766,655
2003	28	193	12	5,776	46,153,243	336,611,886	291,484,763	202,898,454
2004	22	172	54	5,572	46,857,723	358,704,157	308,318,116	223,878,376
2005	19	177	21	5,393	47,913,908	377,826,822	321,830,899	249,520,685
2006	17	201	20	5,189	48,254,366	394,130,999	333,914,263	270,418,116
2007	14	165	2	5,036	48,474,331	417,578,758	349,100,902	289,169,600
2008	8	177	20	4,847	49,130,191	447,124,352	373,365,677	309,277,352
2009	13	136	10	4,714	49,604,483	482,684,405	408,831,654	311,153,591
2010	12	121	16	4,589	50,081,400	\$500,075,341	\$427,602,919	\$306,276,075



Contact Information

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Credit Union Investments:	(800) 755-5999	ocmpmail@ncua.gov
Consumer Assistance:	(800) 755-1030	consumerassistance@ncua.gov
Report Improper or Illegal Activities:	(800) 778-4806	oigmail@ncua.gov
Share Insurance Hotline:	(877) 452-1463	
Technical Support:	(800) 827-3255	csdesk@ncua.gov

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